

The Treasury
Annual Report
2007-08

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Australian Government

The Treasury

Office of the Secretary

8 October 2008

The Hon Wayne Swan MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting to you the annual report of the Treasury for the year ended 30 June 2008. The report has been prepared in accordance with section 63 of the *Public Service Act 1999*. Subsection 63 (1) of the Act requires that the Secretary to the department is to provide a copy of the report to the agency minister for presentation to the Parliament.

As provided in subsection 63 (2) of the Act, the report has been prepared in accordance with guidelines approved on behalf of the Parliament by the Joint Committee of Public Accounts and Audit. These guidelines provide that a copy of the annual report is to be laid before each House of the Parliament on or before 31 October.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ken Henry'.

Ken Henry
Secretary to the Treasury

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INTRODUCTION AND GUIDE TO THE REPORT

The Treasury Annual Report 2007-08 outlines performance against outcomes, outputs and performance information contained in the *Portfolio Budget Statements 2007-08*.

The 2007-08 annual report includes the reporting requirements and financial accounts for the Australian Government Actuary and the Foreign Investment Review Board. The financial accounts for the Financial Reporting Panel and the Takeovers Panel are included in this report, however, the performance reporting does not extend to the activities of the Financial Reporting Panel or the Takeovers Panel as they publish their own annual reports.

Part 1 of this report includes a summary of significant issues and developments during 2007-08, and an overview of the Treasury's performance. The departmental overview in Part 1 details the Treasury's role and functions, senior management structure, organisational structure and Treasury portfolio structure.

Part 2 of the report provides an analysis of performance against the Treasury's policy outcomes. A review of the Executive and Parliamentary Division, and Corporate Services Group performance also is provided in Part 2.

Part 3 reports on management and accountability issues as required under the annual report guidelines.

Part 4 presents the audited financial statements of the Treasury as required under the annual report guidelines.

Part 5 of the report, appendices, includes other information as required under the annual report guidelines.

The report concludes with a list of abbreviations and acronyms and an index to the report.

Other sources of information

The Treasury releases information on its activities through many publications, press releases, speeches and other reports including the annual report. Copies of all the Treasury's publications are available on its website at www.treasury.gov.au.

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SECRETARY'S REVIEW

In increasingly challenging economic circumstances, the Treasury has continued to pursue its goal of improving the wellbeing of all Australians, by providing quality advice to government and assisting in the implementation of the government's policy agenda.

A key achievement for the Treasury has been assisting the incoming government with the implementation of its election commitments and the development of policy responses to an evolving global financial crisis. Many of the Government's election commitments were delivered through the 2008-09 Budget, which was produced in a much shorter timeframe than usual due to the timing of the election. This would not have been possible without the hard work and professionalism of Treasury staff.

As part of its role as a central policy agency, the Treasury is leading policy development and public engagement on a number of long-term, economy-wide reforms such as the review of the tax and transfer systems, and Australia's transition to a less carbon-intensive economy.

The Treasury is also helping government progress a number of key economic reforms in partnership with the states and territories through the Council of Australian Governments (COAG).

Effective government spending arrangements

During the election, the Treasury met its obligations under the *Charter of Budget Honesty Act 1998*, producing a Pre-Election Economic and Fiscal Outlook report in conjunction with the Department of Finance and Deregulation, and costing commitments requested by government and opposition parties.

Part 1: Overview

The Treasury's incoming government brief provided the platform on which the Treasury based its advice to government on key policy issues. An early priority for the incoming government was to deliver key economic and fiscal policy initiatives through the 2008-09 Budget.

The Treasury assisted the government in delivering a budgeted surplus of 1.8 per cent of GDP for 2008-09, as well as providing funds for long-term investment in infrastructure, education and health. Government expenditure growth fell to 1.1 per cent, and personal tax cuts worth almost \$47 billion over the forward estimates and measures to assist families with the cost of education, child care, health and housing were delivered.

The Treasury has high-level representation on each of the COAG working groups which will progress government reforms in a range of areas. The Treasury has a lead role in developing a new Commonwealth-State financial framework, which modernises payments to the States for specific purposes and provides incentives to drive national reforms.

Achieving well functioning markets

The Government has drawn extensively on the Treasury's expertise in formulating policies to address capacity constraints in the economy. In particular, the Treasury advised on structural reforms in key sectors, particularly in energy, transport and infrastructure regulation.

Managing Australia's transition to a less carbon-intensive economy is a key economic challenge. The Treasury's economic analysis will support the design and implementation of the carbon pollution reduction scheme, as well as emissions reductions targets and design elements of the scheme. The Treasury is assisting the Government in developing policies to help businesses and households adapt to a less emissions intensive economy.

Sound macroeconomic environment

The Treasury's advice to government is occurring within an increasingly complex international environment. Our strong terms of trade have added to national incomes, but contributed to significant inflationary pressures at a time when the economy is operating close to full capacity. At the same time, severe global financial turmoil and the associated weakening conditions in developed economies such as the United States and United Kingdom represent a risk to continued economic growth.

These events have widely affected areas for which the Treasury has policy responsibility — from financial markets and superannuation, to banking and fiscal policy. The Treasury provided advice on a range of issues affecting the efficient operation of financial markets and helped develop policy responses to financial market turbulence, through its work in international forums such as the G-20 and the International Monetary Fund (IMF) and Australia's membership of the Financial Stability Forum.

Part of the Treasury's approach to fostering economic stability involves building the capacity of economic ministries in our region. Treasury officials are currently working in Papua New Guinea, the Solomon Islands, Nauru and Indonesia. The Treasury continues its involvement in regional economic issues through institutions such as the IMF, the World Bank and the Asian Development Bank.

Effective taxation and retirement income arrangements

I am chairing a panel examining Australia's future tax and transfer systems. The review aims to make recommendations to create a tax structure that positions Australia to deal with its future demographic, social, economic and environmental challenges, and that enhances economic and social outcomes for the Australian people. The review is supported by a dedicated secretariat within the Treasury, and will make its final report to government by the end of 2009.

The Treasury is working closely with the Government to implement a range of tax policy initiatives including measures to improve housing affordability. The National Rental Affordability Scheme, and the First Home Saver Accounts to be offered by the financial services industry, are key elements of the housing affordability policy. In all, 23 taxation and superannuation bills containing 82 measures were introduced into Parliament in 2007-08.

During the year, the Treasury finalised negotiations for a new tax treaty with Japan. Japan is Australia's largest export market, Australia's third largest source of foreign investment and Australia's fifth largest investment destination. Consequently, this tax treaty is one of the most important negotiated in the last five years.

The Treasury has established a process of ongoing prioritised reviews of existing tax expenditures. The aim is to review all tax expenditures once every five years. The first round of tax expenditure reviews was undertaken in early 2008 and recommendations provided to the Government. This process is consistent with recommendations arising from the Australian National Audit Office performance audit of the Tax Expenditures Statement and with the Government's commitment to Operation Sunlight.

The Treasury also continued to improve and extend its capacity for analysis of tax-transfer policy through quantitative modelling during the year. This included developments associated with labour force participation, child care and climate change policy.

2008-09 outlook

While the pace of economic growth is likely to slow in the coming year, strong demand for Australia's resources is likely to continue in the medium term, underpinning the need to continue to manage inflation.

With these competing pressures in mind, much of the Treasury's advice to the government will aim to target spending to enhance the productive capacity of the

Part 1: Overview

economy. This will encompass significant investment in transport infrastructure — including rail, road and ports. It also will include enhancing Australia's telecommunications and information technology network and require significant investment in developing Australia's skills base and ensuring Australia's workers are able to apply their skills in the areas of highest demand.

Many of these investments will be made in partnership with the states and territories, through the COAG reform agenda. The agenda includes measures to boost productivity, increase workforce participation and mobility, deliver improved services, contribute to social inclusion and environmental sustainability, and close the gap on indigenous disadvantage.

Appropriately designed tax frameworks also contribute to productivity, both for businesses and individual income-earners. In reviewing Australia's tax and transfer systems, the review panel will be particularly mindful of the need to maintain and enhance incentives for Australians to enter and remain in the workforce; reduce complexity; and promote Australia's international competitiveness while maintaining a secure revenue base.

The Treasury will continue to work to establish Australia as a leading financial services centre. Reforms already have seen a reduction in the withholding tax rate for foreign investment, and further work will focus on making Australia's financial services industry more internationally competitive.

The Treasury will be leading reforms to promote competition in the banking sector and enhance consumer protection more generally. The bank account switching package will make it easier for consumers to get the best possible deal on their banking services. At the same time, the Government's commitment to assume responsibility for consumer credit regulation will enhance consistency and certainty for consumers, while reducing the regulatory burden for business.

In addition to providing advice on ways to improve Australia's productivity, the Treasury will undertake modelling and analysis seeking to promote economic growth within a framework of sustainability. For example, in preparing the next intergenerational report, the Treasury will play an important role in informing policies necessary to respond to the challenges of the future, including demographic change, climate change and the opportunities presented by an evolving international economy.

As we draw closer to the commencement of the carbon pollution reduction scheme, the Treasury will focus on regulatory and market design, as well as quantitative economic analysis. This analysis will include the distributional impacts of emissions abatement and any assistance measures that may be required.

Our organisation

The Treasury has taken on an enhanced role as a central policy agency, as well as an expanded policy implementation function providing more opportunities to work across government.

However, the Treasury's heightened involvement in cross-government policy development also presents challenges for the Treasury in terms of managing our organisation's work pressures. Going forward, the Treasury will need to consider carefully how it best allocates its staff resources.

Significant challenges lie ahead for the Treasury — both in terms of the changing policy environment and for the organisation itself. Part of our response to these pressures will be to ensure that we are functioning as efficiently as possible. The Treasury continued to implement its Information and Knowledge Management Program to improve productivity and effectiveness through greater automation of simple tasks, improved document management and security, and more efficient automated workflow.

The Treasury will be developing and implementing a range of quality assurance procedures which will enhance transparency and accountability. The Treasury has also implemented measures to adjust to the Government's increased efficiency dividend in the coming year.

For the third year in a row, a Treasury employee has been awarded a scholarship to undertake the Young Leaders' Program at the Japanese National Graduate Institute of Policy Studies. Ms Louise Butler will commence her studies in October 2008.

I am proud of the calibre and professionalism of Treasury staff. I would particularly like to acknowledge the quiet but important contribution to the operation of the Treasury of Ms Huong Le who passed away during the year. Ms Le was a long-term Treasury employee, providing 18 years of service to the department. Our thoughts remain with her family.

Ken Henry
Secretary to the Treasury

DEPARTMENTAL OVERVIEW

THE TREASURY'S MISSION

The Treasury's mission is to improve the wellbeing of the Australian people by providing sound and timely advice to the government, based on objective and thorough analysis of options, and by assisting Treasury ministers in the administration of their responsibilities and the implementation of government decisions.

POLICY OUTCOMES

In carrying out its mission, the Treasury has responsibility for the following policy outcomes:

- sound macroeconomic environment;
- effective government spending arrangements;
- effective taxation and retirement income arrangements; and
- well functioning markets.

Outcome 1: Sound macroeconomic environment

A sound macroeconomic environment is an essential foundation for strong, sustainable economic growth and the improved wellbeing of Australians. It is characterised by stable prices, low interest rates, healthy employment growth and a sustainable external position.

As many influences on macroeconomic outcomes are beyond the control of the Australian Government, policy aims to improve the prospects for the Australian economy rather than to target specific outcomes or major economic indicators. Success is judged more by medium to long-term performance relative to Australia's past and to other countries, rather than by particular results in any year.

The Treasury aims to contribute to a sound macroeconomic environment through:

- providing strategic advice on domestic and international economic developments;
- forecasting the Australian and global economies;
- providing strategic advice on macroeconomic policy frameworks (fiscal and monetary policy);

- making effective use of bilateral relationships, and regional and global forums to advance Australia's interests and improve the international economic environment; and
- shaping the development and implementation of the Treasury's engagement strategies in the Asia-Pacific region, and assisting counterpart governments in the region to pursue improved economic governance.

Macroeconomic Group is responsible for the outputs associated with Outcome 1.

Outcome 2: Effective government spending arrangements

Government spending arrangements contribute to the overall fiscal outcome but also influence strong sustainable economic growth and the improved wellbeing of Australians.

Spending measures should be effective in meeting their stated objectives, minimise behavioural distortions and deliver significant economic and other benefits compared with costs, thus contributing to the wellbeing of Australians.

Ongoing advice from the Treasury to portfolio ministers assists in formulating, implementing and explaining government spending decisions. The Treasury does this by:

- putting together the budget as the key strategic planning and resource allocation tool of the government;
- providing high quality input into government consideration of expenditure programs; and
- advising on the effective financial operations of government collectively in Australia (including in relation to the Australian Government's debt management).

Fiscal Group is responsible for the outputs associated with Outcome 2.

Outcome 3: Effective taxation and retirement income arrangements

Taxation and retirement income arrangements contribute to the overall fiscal outcome and influence strong sustainable economic growth and the improved wellbeing of Australians.

Taxation measures should meet revenue or other public policy objectives and have regard to the principles of economic efficiency, horizontal and vertical equity and transparency, whilst minimising compliance and administrative costs. By meeting these objectives, taxation measures contribute to wellbeing, either directly or by providing the revenue base to finance government services.

Part 1: Overview

The Treasury provides policy advice to its portfolio ministers to promote government decisions that further these objectives.

The Treasury aims to contribute to effective taxation and retirement income arrangements through:

- analysing the economic and social effects of policy proposals and developing policy options;
- providing sound and timely advice to portfolio ministers to assist in formulating, implementing and explaining government decisions on taxation and retirement income arrangements;
- contributing to the implementation of legislation which makes government decisions effective;
- providing accurate and timely information on material changes to revenue forecasts, projections and costing policies;
- consulting with stakeholders and the community; and
- providing secretariat support to Australia's Future Tax System Review Panel.

Revenue Group is responsible for the outputs associated with Outcome 3.

Outcome 4: Well functioning markets

Well functioning markets contribute to high sustainable economic and employment growth and the improved wellbeing of Australians, by enabling resources to flow to those parts of the economy where they can be used most productively.

Well functioning markets operate where investors and consumers have confidence and certainty about the regulatory framework, and are able to make decisions that are informed and free of market distortions and impediments.

The Treasury aims to contribute to well functioning markets through:

- fostering competitive, efficient, well-informed and safe markets;
- pursuing efficient development and implementation of foreign investment and trade policy to support well functioning markets and Australia's national interest;
- promoting a well functioning and competitive financial system;
- assisting Australian business through the reduction of regulatory reporting burdens; and
- advocating sound corporate practices and financial reporting, and regulation of corporations and financial services.

Markets Group is responsible for the outputs associated with Outcome 4.

Markets Group also maintains the operations of the Standard Business Reporting Management Group, Australian Government Actuary, Financial Reporting Panel and Takeovers Panel.

Treasury support services

The Treasury's outputs are delivered with the assistance of systems and facilities which provide essential support and organisational backup to the groups. These systems and facilities are provided by the Executive and Parliamentary Division (previously named the Strategic Communications Division) and Corporate Services Group.

The Executive and Parliamentary Division manages the systems supporting Cabinet and parliamentary liaison, ministerial correspondence and briefing. It provides Executive Board and Audit Committee secretariat services; departmental governance structures and systems; risk management, quality assurance and policy evaluation frameworks; implementation monitoring and tools; issues management; and coordination of freedom of information requests.

Corporate Services Group is responsible for the provision of corporate services products and advice including: accommodation and facilities management; financial management; human resource management, training and development; information management and technology services; procurement; publishing; security and travel.

THE TREASURY'S PEOPLE VALUES

The Treasury's people values reflect the Treasury's management approach and are within the broader Australian Public Service framework.

The Treasury people management principles are that:

- there will be open, two-way communication at all levels;
- accountabilities will be clearly defined;
- remuneration will be based on work performance and determined by fair and transparent processes; and
- staff will be assisted in achieving appropriate work and private life balance.

Treasury people will:

- strive for excellence;
- value teamwork, consultation and sharing of ideas;
- value diversity among its people;

Part 1: Overview

- treat everyone with respect;
- exhibit honesty in all their dealings; and
- treat colleagues with fairness.

THE TREASURY'S ROLE AND CAPABILITIES

The Treasury's mission statement reflects the breadth of its ministers' responsibilities and underscores the key importance for the Treasury of a strong relationship with its ministers, built on trust and effective advice. The Treasury plays a central policy agency role in developing and implementing public policy, and in assisting government in identifying national policy priorities.

In assessing public policy issues, the Treasury applies a broad wellbeing framework comprising five elements:

- the opportunity and freedom that allows individuals to lead lives of real value to them;
- the level of consumption possibilities available to the community over time. This includes both market and non-market goods and services, such as voluntary and community work, the quality of the physical environment, health and leisure;
- the distribution of these consumption possibilities, including among different groups within society, across geographical regions and across generations;
- the overall level and allocation of risk borne by individuals and, in aggregate, by the community; and
- the level of complexity confronting Australians in making decisions about their lives.

The application of the wellbeing framework, along with the scope of policy responsibilities held by Treasury ministers, means that the Treasury must bring a whole-of-economy approach to its advice and analysis, taking account of a broad range of issues, such as freedom, opportunity and the natural environment.

To be an effective central policy agency across the full range of activities, the Treasury works to ensure that it:

- effectively focuses its efforts on issues that really matter, based on its understanding of government and its ministers' interests;
- anticipates policy developments, both inside and outside the Treasury portfolio;

- brings a strong analytical approach to all issues by applying its understanding of economic principles and tools, the framework for understanding wellbeing, its knowledge of Australia and relevant international policy experience, and an understanding of relevant interests;
- provides high-quality policy advice that is compatible with practical realities and ensures that government policy is implemented either by the Treasury or, where appropriate, by others;
- remains relevant over time through an inclusive and participatory involvement in policy processes, domestic and international engagement and continued sensitivity to the changes in community values and the policy environment; and
- consistently achieves results working within the government.

In broad terms, the capabilities the Treasury needs to fulfill its role and deliver outputs include:

- a deep understanding of its mission, the economic and policy environment, and stakeholders' views;
- a collaborative approach with internal and external stakeholders to develop effective policy;
- proactivity and vision — to anticipate policy, implementation and organisational issues;
- influence and reputation — building trust with the government and other stakeholders, to influence the policy agenda;
- improvement and adaptability — being flexible, adaptable and innovative; and
- efficiency and productivity — managing costs, allocating resources and enabling efficiencies.

Production and delivery of the Treasury's outputs relies on:

- policy development, which covers identifying policy issues, shaping policy approaches, managing issues during a process of change and providing up-to-date information;
- quantitative analysis of the economy, of policy options and their impacts, and of government and departmental finances;
- policy implementation and development of legislation and related instruments;
- public consultation and information in development of policy and legislation, and ongoing management of issues;

Part 1: Overview

- good working relationships within the Treasury portfolio and with external stakeholders;
- effective and collaborative international engagement; and
- administration of governance arrangements, legislation and programs.

These activities are supported by people, financial and facilities management systems, information and knowledge management systems, communications systems and strategic leadership at multiple levels in the organisation.

Table 1: Treasury financial and staffing resources summary

	Budget 2008 \$'000	Actual 2008 \$'000	Budget 2009 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	5,000	-	5,000
Appropriation Acts No. 2, 4 and 6	257,108	253,957	81,833
Special Appropriations	42,704,246	42,401,934	45,301,816
Other expenses	-	(203)	-
Total administered expenses	42,966,354	42,655,688	45,388,649
Revenue from Government			
Output Group 1.1 Macroeconomic	28,679	28,339	27,320
Output Group 2.1 Fiscal	20,081	20,906	21,356
Output Group 3.1 Revenue	42,208	42,751	46,980
Output Group 4.1 Markets	59,875	57,319	50,790
Total revenue from Government contributing to the price of departmental outputs	150,843	149,315	146,446
Revenue from other sources			
Output Group 1.1 Macroeconomic	5,854	4,549	5,943
Output Group 2.1 Fiscal	251	293	275
Output Group 3.1 Revenue	563	655	590
Output Group 4.1 Markets	4,476	3,353	4,010
Total revenue from other sources	11,144	8,850	10,818
Total revenue for departmental outputs (Total revenues from Government and other sources)	161,987	158,165	157,264
Price of departmental outputs			
Output Group 1.1 Macroeconomic	34,533	33,270	33,263
Output Group 2.1 Fiscal	20,332	20,822	21,631
Output Group 3.1 Revenue	42,771	40,899	47,570
Output Group 4.1 Markets	64,351	54,684	54,800
Total price of departmental outputs	161,987	149,675	157,264
Total estimated resourcing (Total price of outputs and administered expenses)	43,128,341	42,805,363	45,545,913
Average staffing levels (number)	920	903	920

Note: The budget for departmental and administered expenses for 2008 and 2009 are from the *Portfolio Budget Statements 2008-09*.

Figure 1: Treasury top management structure (as at 30 June 2008)

Secretary: Ken Henry	
Executive and Parliamentary Division General Manager: Frank Di Giorgio	
Macroeconomic Group: Executive Director, David Gruen	
Macroeconomic Group: A/g Executive Director, Chris Legg	
Chief Adviser, International: Vacant	Overseas Posts
Domestic Economy Division A/g General Manager: Jason Allford	Washington Minister-Counsellor (Economic): Steve Morling
Macroeconomic Policy Division General Manager: Tony McDonald	Paris Gerry Antioch (OECD) and Damien Dunn (Europe)
International Economy Division General Manager: Bill Brummitt	Tokyo Minister-Counsellor (Economic): Bruce Paine
International Finance Division General Manager: Jan Harris	Beijing Minister-Counsellor (Financial): Irene Sim
Pacific and Assistance Division General Manager: Neil Motteram	Jakarta Counsellor (South East Asia Financial): Vincent Ashcroft
Fiscal and Corporate Services Group: Executive Director, Nigel Ray	
Budget Policy Division A/g General Manager: Neil Richardson	Corporate Services Group Group General Manager: Deidre Gerathy
Industry, Environment and Defence Division General Manager: Maryanne Mrakovcic	Financial and Facilities Management Division General Manager: Rob Donnelly
Commonwealth-State Relations Division General Manager: Michael Willcock	Human Resources Division General Manager: Pamela Henderson
Social Policy Division A/g General Manager: Peta Furnell	Information Management and Technology Services Division General Manager: Alaine King
Revenue Group: A/g Executive Director, Paul McCullough	
Chief Adviser, Taxation: Tom Reid	Tax Design Division General Manager: Brenda Berkeley
International Tax and Treaties Division General Manager: Mike Rawstron	Personal and Retirement Income Division A/g General Manager: Sue Vroombout
Australia's Future Tax System Review Secretariat Secretary: Rob Heferen	Indirect Tax Division General Manager: Christine Barron
Tax Analysis Division A/g General Manager: Colin Brown	Board of Taxation Secretariat Secretary: Christine Barron
Business Tax Division A/g General Manager: Matthew Flavel	
Markets Group: Executive Director, Jim Murphy	
Chief Adviser, Competition and Consumer Policy: Phil Gaetjens	Australian Government Actuary General Manager: Peter Martin
Foreign Investment and Trade Policy Division General Manager: Patrick Colmer	Takeovers Panel Director: Allan Bulman
Financial System Division General Manager: Veronique Ingram	Financial Literacy Foundation A/g General Manager: Grahame Crough
Competition and Consumer Policy Division General Manager: David Martine	Financial Reporting Panel Executive Director: Stephen Powell
Corporations and Financial Services Division General Manager: Geoff Miller	Standard Business Reporting Management Group Program Director: Paul Madden

Figure 2: Treasury outcome and output structure (as at 30 June 2008)
Strong, sustainable economic growth and the improved wellbeing of Australians

Outcome 1: Sound macroeconomic environment		
Output Group 1.1: Macroeconomic		
1.1.1	Domestic economic policy advice and forecasting	Domestic Economy Division Macroeconomic Policy Division
1.1.2	International economic policy advice and assessment	International Economy Division International Finance Division Pacific and Assistance Division Overseas Posts
Outcome 2: Effective government spending arrangements		
Output Group 2.1: Fiscal		
2.1.1	Budget policy advice and coordination	Budget Policy Division
2.1.2	Commonwealth-State financial policy advice	Commonwealth-State Relations Division
2.1.3	Industry, environment and defence policy advice	Industry, Environment and Defence Division
2.1.4	Social and income support policy advice	Social Policy Division
Outcome 3: Effective taxation and retirement income arrangements		
Output Group 3.1: Revenue		
3.1.1	Taxation policy and legislation advice	Business Tax Division Indirect Tax Division International Tax and Treaties Division Personal and Retirement Income Division Tax Analysis Division Tax Design Division Australia's Future Tax System Review Secretariat Board of Taxation Secretariat
3.1.2	Retirement income and saving policy and legislation advice	Personal and Retirement Income Division
Outcome 4: Well functioning markets		
Output Group 4.1: Markets		
4.1.1	Foreign investment and trade policy advice and administration	Foreign Investment and Trade Policy Division Foreign Investment Review Board
4.1.2	Financial system and corporate governance policy advice	Corporations and Financial Services Division Financial System Division Financial Reporting Panel Takeovers Panel Standard Business Reporting Management Group
4.1.3	Competition and consumer policy advice	Competition and Consumer Policy Division Financial Literacy Foundation
4.1.4	Actuarial services	Australian Government Actuary

Figure 3: Treasury portfolio outcome and output structure (as at 30 June 2008)

<p>Portfolio Minister — Treasurer The Hon Wayne Swan MP</p> <p>Assistant Treasurer and Minister for Competition Policy and Consumer Affairs The Hon Chris Bowen MP</p> <p>Minister for Superannuation and Corporate Law Senator the Hon Nick Sherry</p>			
<p>Department of the Treasury Secretary: Dr Ken Henry AC</p> <p>Strong, sustainable economic growth and the improved wellbeing of Australians</p> <table border="0"> <tr> <td style="vertical-align: top;"> <p>Outcome 1: Sound macroeconomic environment</p> <p>Output 1.1.1: Domestic economic policy advice and forecasting</p> <p>Output 1.1.2: International economic policy advice and assessment</p> <p>Outcome 2: Effective government spending arrangements</p> <p>Output 2.1.1: Budget policy advice and coordination</p> <p>Output 2.1.2: Commonwealth-State financial policy advice</p> <p>Output 2.1.3: Industry, environment and defence policy advice</p> <p>Output 2.1.4: Social and income support policy advice</p> </td> <td style="vertical-align: top;"> <p>Outcome 3: Effective taxation and retirement income arrangements</p> <p>Output 3.1.1: Taxation policy and legislation advice</p> <p>Output 3.1.2: Retirement income and saving policy and legislation advice</p> <p>Outcome 4: Well functioning markets</p> <p>Output 4.1.1: Foreign investment and trade policy advice and administration</p> <p>Output 4.1.2: Financial system and corporate governance policy advice</p> <p>Output 4.1.3: Competition and consumer policy advice</p> <p>Output 4.1.4: Actuarial services</p> </td> </tr> </table>		<p>Outcome 1: Sound macroeconomic environment</p> <p>Output 1.1.1: Domestic economic policy advice and forecasting</p> <p>Output 1.1.2: International economic policy advice and assessment</p> <p>Outcome 2: Effective government spending arrangements</p> <p>Output 2.1.1: Budget policy advice and coordination</p> <p>Output 2.1.2: Commonwealth-State financial policy advice</p> <p>Output 2.1.3: Industry, environment and defence policy advice</p> <p>Output 2.1.4: Social and income support policy advice</p>	<p>Outcome 3: Effective taxation and retirement income arrangements</p> <p>Output 3.1.1: Taxation policy and legislation advice</p> <p>Output 3.1.2: Retirement income and saving policy and legislation advice</p> <p>Outcome 4: Well functioning markets</p> <p>Output 4.1.1: Foreign investment and trade policy advice and administration</p> <p>Output 4.1.2: Financial system and corporate governance policy advice</p> <p>Output 4.1.3: Competition and consumer policy advice</p> <p>Output 4.1.4: Actuarial services</p>
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<p>Australian Bureau of Statistics Statistician: Mr Brian Pink</p> <p>Outcome 1: Informed decision making, research and discussion within governments and the community based on the provision of a high quality, objective and responsive national statistical service</p> <p>Output 1.1.1: Economic statistics</p> <p>Output 1.1.2: Population and social statistics</p>			
<p>Australian Competition and Consumer Commission Chairman: Mr Graeme Samuel AO</p> <p>Outcome 1: To enhance social and economic welfare of the Australian community by fostering competitive, efficient, fair and informed Australian markets</p> <p>Output 1.1.1: Compliance with competition, fair trading and consumer protection laws and appropriate remedies when the law is not followed</p> <p>Output 1.1.2: Competitive market structures and informed behaviour</p>			
<p>Australian Office of Financial Management Chief Executive Officer: Mr Neil Hyden</p> <p>Outcome 1: To enhance the Commonwealth's capacity to manage its net debt portfolio, offering the prospect of savings in debt servicing costs and an improvement in the net worth of the Commonwealth over time</p> <p>Output 1.1.1: Debt management</p>			

Figure 3: Treasury portfolio outcome and output structure (continued)

<p style="text-align: center;">Australian Prudential Regulation Authority Chairman: Dr John Laker</p> <p>Outcome 1: To enhance public confidence in Australia’s financial institutions through a framework of prudential regulation which balances financial safety and efficiency, competition, contestability and competitive neutrality</p> <p>Output 1.1.1: Policy development Output 1.1.2: Surveillance programs Output 1.1.3: Prudential advice</p>
<p style="text-align: center;">Australian Securities and Investments Commission Chairman: Mr Tony D’Aloisio</p> <p>Outcome 1: A fair and efficient market characterised by integrity and transparency and supporting confident and informed participation of investors and consumers</p> <p>Output 1.1.1: Policy and guidance about the laws administered by ASIC Output 1.1.2: Comprehensive and accurate information on companies and corporate activity Output 1.1.3: Compliance, monitoring and licensing of participants in the financial system to protect consumer interests and ensure market integrity Output 1.1.4: Enforcement activity to give effect to the laws administered by ASIC</p>
<p style="text-align: center;">Australian Taxation Office Commissioner: Mr Michael D’Ascenzo</p> <p>Outcome 1: Effectively managed and shaped systems that support and fund services for Australians and give effect to social and economic policy through the tax, superannuation, excise and other related systems</p> <p>Output 1.1.1: Shape, design and build administrative systems Output 1.1.2: Management of revenue collection and transfers Output 1.1.3: Compliance assurance and support — revenue collection Output 1.1.4: Compliance assurance and support for transfers and regulation of superannuation funds Output 1.1.5: Services to governments and agencies</p>
<p style="text-align: center;">Commonwealth Grants Commission Secretary: Mr John Spasojevic</p> <p>Outcome 1: Fiscal equalisation between the States, the Australian Capital Territory and the Northern Territory is achieved through the distribution, by Government, of GST revenue and Health Care Grants</p> <p>Output 1.1.1: Report on State Revenue Sharing Relativities</p>
<p style="text-align: center;">Corporations and Markets Advisory Committee Convenor: Mr Richard St John</p> <p>Outcome 1: A fair and efficient market characterised by integrity and transparency and supporting confident and informed participation of investors and consumers</p> <p>Output 1.1.1: Annual report and discussion papers Output 1.1.2: Recommendations and reports</p>
<p style="text-align: center;">Inspector General of Taxation Inspector-General: Mr David Vos AM</p> <p>Outcome 1: Improved administration of the tax laws for the benefit of all taxpayers</p> <p>Output 1.1.1: Identification of issues for review and prioritisation of work program Output 1.1.2: Provision of independent advice to the government on the administration of the tax laws</p>
<p style="text-align: center;">National Competition Council President: Mr David Crawford</p> <p>Outcome 1: The achievement of effective and fair competition reforms and better use of Australia’s infrastructure for the benefit of the community</p> <p>Output 1.1.1: Advice provided to governments on infrastructure access issues</p>

Figure 3: Treasury portfolio outcome and output structure (continued)

<p style="text-align: center;">Productivity Commission Chairman: Mr Gary Banks AO</p> <p>Outcome 1: Well-informed policy decision-making and public understanding on matters relating to Australia's productivity and living standards, based on independent and transparent analysis from a community-wide perspective</p> <p>Output 1.1.1: Government commissioned projects</p> <p>Output 1.1.2: Performance reporting and other services to government bodies</p> <p>Output 1.1.3: Competitive neutrality complaints activities</p> <p>Output 1.1.4: Supporting research and activities and annual reporting</p>
<p style="text-align: center;">Royal Australian Mint Chief Executive Officer: Ms Janine Murphy</p> <p>Outcome 1: Manufacture and sale of circulating coins, to meet the coinage needs of the Australian economy, and collector coins and other minted products for Australia and foreign countries</p> <p>Output 1.1.1: Manufacture and sale of circulating coins for Australia and provision of associated policy and technical advice</p> <p>Output 1.1.2: Manufacture and sale of circulating coins for foreign countries</p> <p>Output 1.1.3: Production and sale of collector coins and other minted and like products for Australian and other clients</p> <p>Output 1.1.4: Provide gallery and visitors services</p>

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REPORT ON PERFORMANCE

The report on performance covers the Treasury's administered items and departmental outputs for 2007-08.

The administered items are revenues, expenses, assets or liabilities managed by the Treasury on behalf of the Australian Government. Administered expenses include subsidies, grants and benefits. Departmental outputs are the goods and services the Treasury provides for, and on behalf of, the Government.

The Treasury's 2007-08 performance is reported at the outcome and output levels for its four policy outcomes:

- Outcome 1: Sound macroeconomic environment;
- Outcome 2: Effective government spending arrangements;
- Outcome 3: Effective taxation and retirement income arrangements; and
- Outcome 4: Well functioning markets.

Performance outcomes are reported against the performance information published in the Treasury section of the *Portfolio Budget Statements 2007-08*.

OUTCOME 1: SOUND MACROECONOMIC ENVIRONMENT

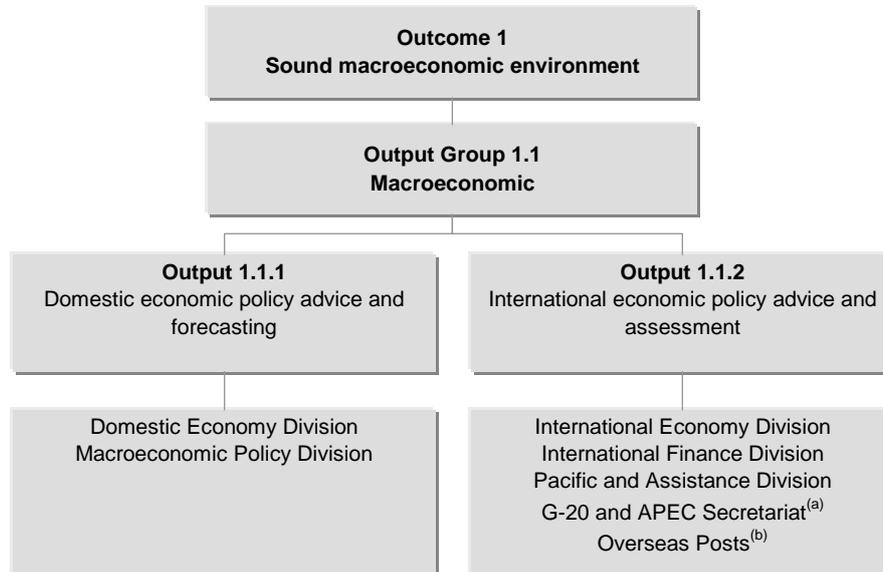
The Treasury, through Macroeconomic Group, aims to contribute to a sound macroeconomic environment by monitoring and assessing economic conditions and prospects, both in Australia and overseas, and by providing advice on the formulation and implementation of effective macroeconomic policy, including monetary and fiscal policy.

The Treasury also provides advice on advancing Australia's interests at international forums and institutions such as the Group of Twenty (G-20), the International Monetary Fund (IMF), the World Bank, the Asian Development Bank, the European Bank for Reconstruction and Development (EBRD), the Organisation for Economic Co-operation and Development (OECD) and the Asia-Pacific Economic Cooperation (APEC) forum. Australia is contributing significantly to international efforts to sustain international economic stability and growth through these forums.

During 2007-08, the Treasury provided strategic advice and assessments on macroeconomic issues, supported by in-depth analysis of domestic and international economic developments. Its forecasts helped shape budget estimates and policy formulation. The Treasury provided strategic advice on international economic policy issues, working towards sustained growth, openness and sound governance in the global economy. The Treasury also played a key role in advancing Australia's interests through participation in international financial institutions and forums, and bilateral engagement, particularly in the Asia-Pacific.

Feedback from Treasury portfolio ministers indicated these outputs effectively contributed to their needs in influencing and formulating policy aimed at achieving a sound macroeconomic environment.

Figure 4: Outputs contributing to Outcome 1



(a) The G-20 and APEC Secretariat was wound up at the end of November 2007.

(b) The Treasury's overseas posts are a whole-of-department resource but are allocated to this output for reporting purposes.

KEY PRIORITIES IN 2007-08

Key priorities in 2007-08 were to:

- advise on domestic and international developments affecting the Australian economy and forecast the direction of the Australian and international economies;
- advise on the setting of sound macroeconomic policies;
- identify policies likely to improve Australia's economic growth potential and wellbeing, including improved understanding of the impact of changes in workforce participation and productivity on future growth and fiscal pressures;
- work with others to reform, strengthen and modernise key international forums (including the World Bank, IMF, OECD and Asian Development Bank);
- maintain the Treasury's leading role in shaping the G-20, the APEC forum and the East Asia Summit process;
- build on already close links with policy makers in East Asia, including Japan, China and Indonesia;
- work closely with counterparts in the Indonesian Government in support of their reform efforts under the \$50 million Government Partnerships Fund, a

key component of the \$1 billion Australia-Indonesia Partnership for Reconstruction and Development;

- play a role in government initiatives to improve economic governance in the Pacific, particularly in Papua New Guinea (PNG), Solomon Islands and Nauru, and the Pacific Islands Forum Economic Ministers' Meeting;
- provide high quality, strategic policy support to selected countries in the Asia-Pacific region;
- develop effective, relevant and achievable policy outcomes and work programs for APEC; and
- sustain efforts to promote the G-20 as the most effective global forum for dealing with major global economic and financial challenges, including through participation on the management troika in 2007 (comprising the current, past and future hosts of the G-20, currently South Africa, Australia and Brazil respectively).

KEY OUTCOMES IN 2007-08

Key outcomes were as follows:

- Economic forecasts assisted the Government with policy formulation. Analysis focused on the impact on the Australian economy of higher commodity prices, including oil prices, as well as the risks posed by slower global growth, tighter credit conditions and financial market turbulence.
- Briefings were prepared for the Treasurer on the Australian Bureau of Statistics (ABS) and private sector economic statistics, with an emphasis on their implications for the economic outlook. The Treasurer regularly received advice from the Treasury on global economic developments and emerging international risks.
- Published material included economic forecasts and analysis in budget papers, *Economic Roundup*, working papers and speeches to better inform the public about economic developments and issues.
 - *Economic Roundup* included articles analysing the policy issues surrounding fiscal transparency, investment in capacity building, venture capital in Australia and sovereign wealth funds.
 - For the 2008-09 Budget, Statement 4 of Budget Paper No. 1, *Boosting Australia's Productive Capacity: The role of Infrastructure and Skills*, outlined key elements which could contribute to an improved policy and institutional framework to achieve better outcomes in infrastructure and skills, education and training.

- Treasury officials spoke to a range of organisations on issues including the short-term macroeconomic outlook, the challenges of achieving and maintaining a full employment economy, and fiscal and monetary policy challenges arising from the terms of trade boom.
- The Treasury continued to assist the Government take an active role in international forums and institutions to influence outcomes supporting sustained international economic stability, growth and development. In particular, Australia is a strong supporter of reforms that enhance the legitimacy and relevance of international forums and institutions.
 - In April 2008, IMF Governors agreed on a quota and voice reform package which delivers on Australia's objective of enhancing the IMF's legitimacy and relevance by ensuring that the voting shares of emerging market economies better reflect their growing weight in the world economy.
 - Australia was actively engaged in the work of the IMF and World Bank through the Executive Board and attendance at meetings of the International Monetary and Financial Committee and Development Committee, International Monetary and Financial Committee and Development Committee Deputies and other IMF and World Bank forums.
 - The Treasury also participated in the replenishment negotiations of the grant and concessional lending arms of the World Bank and Asian Development Bank.
- The G-20 is a key forum for Australia to advance its international economic interests, particularly as its representation brings together the major developed and emerging market economies of the world.
 - During 2007-08, the Treasury worked closely on the G-20 management troika with South Africa and Brazil.
 - The G-20 played a central role in the IMF governors' decision to implement the quota and voice reform package.
- Australia hosted a successful meeting of the APEC Finance Ministers in Coolom in August 2007.
 - Throughout Australia's host year and in 2008, the Treasury has endeavoured to improve the effectiveness of the APEC Finance Ministers' process. In particular, the Treasury has worked to encourage an effective policy-setting, outcomes-driven and reform-initiating process that strengthens the link between the Finance Ministers and Economic Leaders.

Part 2: Report on performance

- The Treasury has worked closely with Peru in the lead up to the 2008 APEC Finance Ministers' Meeting. The aim has been to strengthen the strategic discussion of regional and global economic issues and the policy focus of the meeting.
- In the Asia-Pacific region more broadly, the Treasury continued to advance its engagement with key Asian economies through policy dialogue, cooperation and institution building.
 - The Treasurer attended the High Level Event on Climate Change for Finance Ministers in Bali in December 2007 and visited China in June 2008 to discuss strengthening institutional ties with the National Development and Reform Commission.
 - The Treasury established an economic dialogue with the Indian Ministry of Finance, to share information, discuss economic conditions and reform approaches and priorities, and collaborate on work in regional forums; annual senior officials talks were also held in Canberra with Korea and Japan in October 2007 and March 2008 respectively.
 - Significant progress was made in enhancing a strategic partnership with the Indonesian Ministry of Finance through the appointment of two Treasury deployees, under the auspices of the Government Partnership Fund.
 - Australia continued to strongly support the East Asia Summit and Treasury officials attended and participated in a range of conferences addressing economic and policy issues, received delegations for policy discussions and visited the region regularly in 2007-08.
- The Treasury provided policy advice and skilled staff to assist countries experiencing economic challenges including PNG, Solomon Islands and Nauru.

Table 2: Financial and staffing resources summary for Outcome 1

	Budget 2008 \$'000	Actual 2008 \$'000	Budget 2009 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	31,050	28,738	21,816
Other expenses	-	-	-
Total administered expenses	31,050	28,738	21,816
Revenue from Government			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	9,486	9,695	9,831
Output 1.1.2 International economic policy advice and assessment	19,193	18,644	17,489
Total revenue from Government contributing to the price of departmental outputs	28,679	28,339	27,320
Revenue from other sources			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	170	227	176
Output 1.1.2 International economic policy advice and assessment	5,684	4,322	5,767
Total revenue from other sources	5,854	4,549	5,943
Total revenue for departmental outputs (Total revenues from Government and other sources)	34,533	32,888	33,263
Price of departmental outputs			
Output Group 1.1 Macroeconomic			
Output 1.1.1 Domestic economic policy advice and forecasting	9,656	9,801	10,007
Output 1.1.2 International economic policy advice and assessment	24,877	23,469	23,256
Total price of departmental outputs	34,533	33,270	33,263
Total estimated resourcing for Outcome 1 (Total price of outputs and administered expenses)	65,583	62,008	55,079
Average staffing levels (number)	206	247	192

Note: The budget for departmental and administered expenses for 2008 and 2009 are from the *Portfolio Budget Statements 2008-09*.

OUTPUT 1.1.1: DOMESTIC ECONOMIC POLICY ADVICE AND FORECASTING

Domestic Economy Division and Macroeconomic Policy Division in Macroeconomic Group are responsible for the delivery of Output 1.1.1: Domestic economic policy advice and forecasting.

The Treasury contributes to Outcome 1 by monitoring and assessing economic conditions and prospects, and by providing advice on formulating and implementing effective macroeconomic policy, including monetary and fiscal policy.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice on economic policy and the economic outlook meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions that contribute to a sound macroeconomic environment; and
- effective presentation of budget documents and other publications adequately informs public debate.

ANALYSIS OF PERFORMANCE

Policy advice and inputs into policy processes

During 2007-08, the Treasury advised the Treasurer and other members of the Government on a range of macroeconomic issues.

- The Treasury analysed and provided briefings on economic statistics released by the ABS and the private sector. This included analysis and advice to assist the Treasurer respond to the releases, with an emphasis on their implications for the economic outlook.
- As part of the Business Liaison Program, Treasury officers discussed business activity issues with organisations in major business centres and regional Australia. As well as the more formal Business Liaison Program, the Treasury held more frequent phone consultations with key sectors to gauge the current state of economic activity. Liaison findings were summarised in the *Economic Roundup*.
- The Treasury held discussions with visiting delegations from bodies such as the OECD and IMF, and briefed the Treasurer on the outcomes.
- The Treasurer was provided with advice on fiscal policy and strategies as part of developing the 2008-09 Budget.
- In preparing advice to the Secretary, as a Reserve Bank of Australia (RBA) Board member, the Treasury monitored economic, financial and policy developments to assess their implications for policy settings.
- The Treasury also provided advice on administrative arrangements for the RBA, including reforms to enhance the independence of the RBA.

- The Treasury advised the Treasurer on the evolution and drivers of the Australian economy and factors likely to influence medium-term performance.

The Treasury received positive feedback from the Government on the effectiveness of this advice.

Economic forecasts

Economic forecasts inform policy settings and underpin the calculation of budget estimates of expenditure and revenue. For policy formulation purposes, macroeconomic forecasts provide an understanding of the broad developments within the economy and the balance of risks surrounding the economic outlook.

Forecasting activity focused on 2007-08 and 2008-09, with forecasts published in the *Mid-Year Economic and Fiscal Outlook 2007-08*, *Pre-Election Economic and Fiscal Outlook 2007* and the 2008-09 Budget. These forecasts helped develop policy that contributed to sustainable economic growth. In 2007-08, attention focused on the impact of higher commodity prices, including oil prices, on the Australian economy as well as the risks posed by slower global growth, tighter credit conditions and financial market turbulence.

The Treasury's forecast for economic growth in 2007-08 was revised down slightly from 3¾ per cent in the 2007-08 Budget to 3½ per cent in the 2008-09 Budget. This largely reflected tighter monetary policy settings, an expected slowing in global growth and the impact of financial market strains. These forces were juxtaposed against the large rise in Australia's terms of trade which provided further stimulus to incomes.

The Treasury discussed economic forecasts with the Joint Economic Forecasting Group, which comprises the Treasury (chair), the RBA, the Department of the Prime Minister and Cabinet, the Department of Finance and Deregulation and the ABS. These contributions, together with information gained from liaison with the private sector and other departments, helped improve the quality of the forecasts. Forecasts from the Treasury's macroeconomic model of the Australian economy contributed to the forecasting process, and sensitivity analysis using the model helped improve policy advice.

Contributions to public awareness and debate

Important contributions to public awareness and debate were delivered to a wide audience including international forums, foreign government agencies, state government agencies, tertiary institutions and the Australian public. The Treasury's economic publications and selected presentations are at www.treasury.gov.au.

2008-09 Budget papers

Economic analysis in the annual budget papers is one of the main ways the Treasury contributes to public awareness and debate on economic policy issues.

Part 2: Report on performance

Statement 1 of Budget Paper No. 1, *Budget Overview* discusses the key economic challenges of intensifying inflation and slower growth, and outlines the Government's fiscal strategy and budget priorities.

Published economic forecasts in the *Mid-Year Economic and Fiscal Outlook 2007-08* and the 2008-09 Budget were accompanied by an update on the economic outlook to help inform the public of key developments in the domestic and international economies and the likely effects on short-term economic growth. A comprehensive report on the domestic and international outlook, focused on 2008-09, was in Statement 2 of Budget Paper No. 1, *Economic Outlook*.

Statement 4 of Budget Paper No. 1, *Boosting Australia's Productive Capacity: the Role of Infrastructure and Skills*, outlined some major influences on Australia's productive capacity. The statement outlined key elements that could contribute to an improved policy and institutional framework to achieve better outcomes in infrastructure and skills, education and training, and boost Australia's productive capacity. Efficient price signals play an important role in ensuring efficient investment in new capacity and optimal use of existing productive capacity. The statement discussed possible solutions to problems that can result in price signals not always operating effectively in infrastructure and skills markets.

In addition, the *Budget Overview's* non-technical discussion made major policy developments and forecasts widely accessible.

Media and market commentary on the economic analysis in the 2008-09 Budget enhanced public awareness of the economy's current performance, outlook and risks.

The Treasury's economic publications and speeches

Economic Roundup included articles from all groups within the Treasury.

It focused on issues of fiscal transparency, with articles on conceptual challenges in preparing the second intergenerational report, transparency and sustainability of the public balance sheet and trends in Australian Government spending.

Economic Roundup also had articles on policy issues including addressing extreme disadvantage through investment in capacity building, enhancing intergenerational income mobility through education, measuring entrepreneurship and using venture capital.

In addition, other articles were on net foreign liability dynamics in Australia and the United States, sovereign wealth funds, Australia's Treasurers and household net wealth in Australia.

Senior Treasury officials spoke publicly on the short-term macroeconomic outlook; policy challenges of achieving and maintaining a full employment economy; fiscal and monetary policy challenges posed by the terms of trade boom; and longer term challenges. The speeches were to a range of organisations, including the Australian Business Economists, the Flinders University International Expert Symposium, the NSW Economic Society,

the Conference of Economists and Sir Roland Wilson Foundation. These speeches are on the Treasury's website.

The Treasury also distributed quarterly updates of its macroeconomic model of the Australian economy and associated database. The model has evolved to reflect structural changes in the economy.

Reviews of economic data

The Treasury liaised extensively with the ABS, both informally through regular discussion at all levels and formally through ongoing representation on the Australian Statistics Advisory Council, the Economic Statistics User Group, the Trade in Services User Group, the Labour Statistics Advisory Group and the Demography Statistics Advisory Group.

OUTPUT 1.1.2: INTERNATIONAL ECONOMIC POLICY ADVICE AND ASSESSMENT

International Economy Division, International Finance Division, and Pacific and Assistance Division in Macroeconomic Group are responsible for delivery of Output 1.1.2: International economic policy advice and assessment.

The Treasury contributes to Outcome 1 by providing strategic advice to government ministers on the global and regional economic outlook, Australia's economic engagement with East Asia, the global economic architecture including the international financial institutions, and development prospects and governance challenges facing Pacific economies. The Treasury participates directly in various international forums, and provides policy advice and support to ministers and senior Australian representatives at international financial institutions. It also administers Australia's subscriptions to the international financial institutions.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions relating to international economic and financial issues;
- effective participation in international forums and bilateral dialogue facilitates achievement of government objectives;
- hosting of APEC meetings and associated workshops in 2007 is effective;

- advice on, and direct support for, improving economic governance and policies and building capacity in PNG, Solomon Islands and Nauru is effective;
- government objectives in international forums are facilitated, including strengthening the international financial system, multilateral debt relief and institutional reform in the multilateral development banks; and
- timely and accurate financial transactions with international financial institutions have due regard to minimising cost and risk for Australia.

ANALYSIS OF PERFORMANCES

Facilitation of government objectives in international forums

IMF

In 2007-08, the IMF promoted macroeconomic and financial stability at the global and national levels. It contributed to international efforts to draw lessons from the global financial market turmoil, strengthen the international financial system and reinforce supervisory and regulatory frameworks. The IMF is strengthening its own financial surveillance role and capability to identify risks in the future, including through closer collaboration with the Financial Stability Forum and other relevant bodies. It has welcomed the recommendations of the Financial Stability Forum on enhancing market and institutional resilience and is promoting their wide implementation.

Australia has been a strong advocate of enhanced early warning capabilities for the global economy and financial markets through the IMF working closely with the Financial Stability Forum and the G-20.

In April 2008, IMF governors agreed on a quota and voice reform package which delivers on Australia's objective of enhancing the IMF's legitimacy and relevance by ensuring that the voting shares of emerging market economies, including in our region, better reflect their growing weight in the world economy. The package also enhances the voice of low-income IMF members by tripling the number of basic votes each member receives irrespective of its quota. The package is forward looking, with further realignment of quota and voting shares to be considered in the context of future quota reviews. The current reform package will enter into force once members accept the amendment of the IMF's Articles of Agreement, needed to implement the increase in basic votes. In Australia, this will involve amending the *International Monetary Agreements Act 1947*.

In 2007-08, the IMF undertook significant restructuring and refocusing. The IMF's Executive Board agreed on key elements of a new income and business model to place the IMF's finances on a sustainable long-term footing — including expanding the IMF's investment authority and creating an investment endowment through the sale of 12.5 per cent (or 403 tonnes) of the IMF's gold stock. Gold sales would be undertaken under stringent safeguards to minimise any market disruption. At this stage, the required

majority of members have indicated that they either are ready to vote in favour of the proposal to sell gold or will seek domestic legislative approval to enable them to vote in favour. The United States (US) Administration is seeking congressional approval for gold sales. The IMF will reduce administrative expenditure by US\$100 million over the next three financial years through refocusing its work streams on areas of comparative advantage and downsizing its workforce by 380 personnel.

The IMF also is working closely with the World Bank and other partners in addressing — through policy advice and financial support — the impacts of the sharp rise in food and energy prices being faced by a number of developing countries, especially low-income countries.

During 2007-08, Australia was actively engaged in the work of the IMF through the Executive Board and attendance at meetings of the International Monetary and Financial Committee, International Monetary and Financial Committee Deputies and other forums.

On 1 August 2007, the IMF's First Deputy Managing Director, Dr John Lipsky, participated in a roundtable discussion with senior Treasury officials on the IMF in an evolving global economy and IMF reform. As well as representing the IMF at the APEC Finance Ministers' Meeting in Coolom on 2 August 2007, Dr Lipsky gave a seminar at the Treasury on global imbalances and the outcome of the IMF's first multilateral consultation.

In June 2008, a team of IMF officials visited Australia as part of the annual Article IV consultations, meeting with various government agencies and other organisations, including the RBA in Sydney, Melbourne and Canberra.

Overseas development assistance

The Treasury provided advice on general development and aid issues, including on Australia's multilateral and bilateral aid programs, new expenditure initiatives and the framework for Australia's aid budget.

The Treasury provided advice on contributions to multilateral institutions such as the International Development Association and Asian Development Fund, and 2008-09 Budget initiatives such as Pacific Infrastructure and the effectiveness of Australia's overseas development assistance.

During 2007-08, the Treasury contributed to inter-departmental committees and forums on climate change, infrastructure and food prices. The Treasury also participated in the Development Effectiveness Steering Committee, an inter-departmental committee convened to ensure effectiveness in Australia's overseas development assistance.

World Bank

Australia supported the World Bank's leadership role in improving the living standards of the world's poor, including through the Executive Board and at the World Bank spring and annual meetings. Dr Jim Hagan was appointed World Bank Executive Director from

Part 2: Report on performance

1 August 2007 for four years. The Treasury, in conjunction with the Australian Agency for International Development (AusAID) and other relevant departments, briefed him on matters coming before the Executive Board.

Key features of the World Bank's work program included announcing six strategic themes to guide the World Bank towards inclusive and sustainable development. Australia broadly supported the themes, particularly its focus on fragile and post-conflict states. The World Bank also undertook work to advance voice and participation reform, and Australia will participate in discussions to progress reforms over 2008-09.

The Treasury participated in negotiations for the fifteenth replenishment of the International Development Association, the grant and concessional lending arm of the World Bank Group. This culminated in a record donor pledge of US\$25.1 billion. Australia announced a core contribution of A\$583 million and a further A\$107.9 million for debt relief. During negotiations, Australia focused on ensuring additional donor financing would improve responsiveness to the development needs of the world's poorest and most fragile countries and the association's enhanced effectiveness.

The World Bank continued to respond to major development challenges including climate change and global food security. Australia was active in meetings on the design of the World Bank managed Climate Investment Funds — aimed at funding large-scale transformative investments to reduce emissions and incorporate climate resilience into development strategies. Australia also supported the World Bank's leadership on global food prices, including its Global Food Crisis Response Program.

In August 2007, the Treasury hosted a visit by World Bank President, Mr Robert Zoellick and arranged meetings between Mr Zoellick and Australian Government ministers and senior officials. During 2007-08, the Treasury also hosted visits by Dr Graeme Wheeler, World Bank Managing Director; and Mr Jim Adams, Vice President, East Asia and Pacific.

Asian Development Bank

Australia contributed to Asian Development Bank decision making through representation on the Board of Directors and attendance at the 2008 annual meeting in Madrid, Spain.

Australia supported the approval of the long term strategic framework, *Strategy 2020*. Australia's Executive Director, Mr Phil Bowen, is chairing the review into the Asian Development Bank's Operations Evaluations Department.

Australia participated in the negotiations of the tenth replenishment of the Asian Development Fund, pledging A\$333 million. During the negotiations, Australia emphasised the importance of ensuring the effective implementation of *Strategy 2020* and pressed for reforms in human resources and an increased focus on results.

EBRD

The Government has indicated its intention to withdraw Australia's membership from the EBRD by the beginning of 2010. This reflects the bank's considerable success in assisting political and economic transition in Central and Eastern Europe. Treasury officials commenced the domestic legal and parliamentary processes to advance Australia's withdrawal.

The 2008 annual meeting was held in May 2008 in Kiev, Ukraine. The Alternate Director for Australia, the Hon Peter Reith, delivered a statement on behalf of Australia and New Zealand at the annual meeting. The statement focused on the need for the bank to ensure its operations remain consistent with its mandate of promoting transition to market-based economies; the bank's approach to net income allocation; and the importance of transparency in the selection of the next bank president and senior executive appointments. Mr Thomas Mirow was appointed President from 3 July 2008.

OECD

Treasury officials continued to participate in the OECD's work on macroeconomic and microeconomic issues, contributing to committee discussions on food prices, climate change, energy, taxation, statistics, corporate governance, forecasting, and recent global financial market conditions.

In May 2008, the Treasurer attended the OECD Ministerial Council Meeting in Paris, delivering a key presentation on Australia's approach to implementing an emissions trading scheme. The meeting also provided an opportunity to discuss food prices, sovereign wealth funds and internal OECD management issues such as financing reform.

Working closely with the Department of Foreign Affairs and Trade and Australia's OECD delegation, the Treasury played an important role in encouraging the OECD to raise its profile in our region. As Chair of the OECD Reflection Group on Indonesia, Australia continued to support enhanced engagement between the OECD and Indonesia. Furthermore, as Vice Chair of the Economic and Development Review Committee, Australia progressed the OECD's Economic Assessment of Indonesia (successfully launched on 24 July 2008). The Treasurer used the Ministerial Council Meeting discussions to reiterate the importance Australia attaches to the south east Asian region as a priority for the OECD's enhanced engagement agenda.

G-20

The G-20 remains the most legitimate global economic forum for influencing the direction of major global economic and financial governance issues. It is a key vehicle for advancing Australia's international economic interests, particularly given its representative nature, bringing together the world's major developed and emerging market economies.

Staff from the Treasury and RBA have worked closely with South Africa and Brazil, 2007 and 2008 G-20 hosts respectively, including while on the G-20 management troika. Australia effectively engaged the G-20 in advancing proposals for the second stage of IMF

voice and quota reform. The G-20 played a key role in the achievement of the outcome secured at the April 2008 meeting of IMF governors. Australia, led by the RBA and assisted by Treasury officials, also chaired the G-20 Study Group on Global Credit Market Disruptions in 2008.

Treasury officials attended G-20 meetings in September 2007 and March 2008. The previous Treasurer was represented by Treasury Executive Director, Mr David Parker at the 2007 G-20 Meeting of Finance Ministers and Central Bank Governors in November 2007. Three workshops in the first half of 2008 focused on technical discussions on the key themes of Brazil's 2008 G-20 host year: Competition in Financial Services; Clean Energy and Global Markets; and Fiscal Space for Stability, Growth and Social Inclusion.

Pacific Islands Forum Economic Ministers Meeting

The Pacific Islands Forum Economic Ministers Meeting (FEMM) provides an opportunity to discuss with Pacific Island economic ministers the importance of improving their economic performance in order to deliver stability and improved living standards throughout the region.

Treasury officials supported the Assistant Treasurer's attendance at FEMM in July 2007, keeping ministers focused on policies that will improve economic progress in the Pacific. Australia was influential in securing important structural changes to FEMM in 2007 that will improve its effectiveness.

APEC

APEC¹ is an important regional forum, bringing together key economies from around the Pacific rim, which together comprise around 56 per cent of world gross domestic product.

During Australia's APEC host year, the Treasury sought to improve the effectiveness of the Finance Ministers' Process as a policy-setting, outcomes-driven and reform-initiating forum.

The Treasury hosted the fourteenth APEC Finance Ministers' Meeting in Coolom. This meeting involved representatives from the 21 APEC economies, the IMF, the World Bank, the Asian Development Bank and representatives of the APEC Business Advisory Council. Ministerial discussions led to agreement and support for developing cooperative and practical steps to address energy security, domestic structural reform issues, fiscal sustainability and barriers to investment and growth of private capital markets.

To build on the APEC achievements in 2007 and maintain policy continuity, the Treasury has worked closely with its Peruvian counterparts in the lead up to the 2008 APEC Finance Ministers' Meeting. The Treasury has sought to strengthen the strategic

1 APEC members are Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong China, Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, PNG, Peru, Philippines, Russia, Singapore, Chinese Taipei, Thailand, United States and Vietnam.

discussion of regional and global economic issues, and make the meeting more policy focused whilst aligning the Finance Ministers' Process more within the broader APEC agenda.

Treasury officials actively participated in the meetings of APEC Senior Finance Officials in Peru in late 2007 and July 2008 to help shape the agenda and policy discussions that the ministers will engage in during the Finance Ministers' Process. Managing rising food and fuel prices, responding to the turbulence in the global financial markets, improving the quality of public expenditure and meeting the infrastructure financing gap through better public-private partnership arrangements are key policy themes for late 2008.

The Treasury has continued to cooperate with other APEC processes, including the Senior Officials' Meeting, Economic Committee and the APEC Business Advisory Council to more effectively feed economic and financial perspectives into the wider APEC agenda. This has, in part, involved contributing to policy initiatives that have synergies between Finance Ministers' Process work streams and the broader activities of APEC, including those that support regional economic integration.

Policy initiatives

A key role of APEC is capacity building and sharing of relevant experiences. The Treasury delivered and participated in a number of Finance Ministers' Process policy-based capacity building initiatives.

- A key outcome of the Reform of Financial Sector initiative was to develop a web-based information resource on financial sector reform — the Catalogue of Policy Experience and Choices — which allows policymakers and regulators to draw on the benefit of experience in developing and implementing financial sector reform in accordance with their individual circumstances. The pilot website (www.financialreform.apec.org) was launched on 30 April 2008.
- The Fiscal Management initiative focused on fostering fiscal sustainability among the targeted APEC member economies by improving the management of risk in public-private partnerships. Australia, Indonesia and Vietnam co-sponsored workshops to strengthen risk management capacity held in Jakarta in November 2007 and Ho Chi Minh City in May 2008. The initiative provided the basis for senior finance officials to recommend adopting principles to guide the establishment of well functioning markets in the APEC region.
- Australia, Indonesia, the Russian Federation and Brunei Darussalam co-sponsored the Fiscal Space: Reviewing, Assessing and Prioritising Government Expenditure initiative. A seminar in Bandar Seri Begawan in December 2007 was followed by a workshop in Jakarta in May 2008. The seminar discussed ways to strengthen the technical knowledge and skills of government officers responsible for reviewing, assessing and prioritising public expenditure to develop fiscal space and sustainability. The follow-up

workshop encouraged participants to apply the concept of fiscal space in ways that would suit their local conditions, institutional circumstances and fiscal management priorities.

Timely and accurate financial transactions

Management of international financial commitments

Australia makes significant financial commitments to international financial institutions to support their operations.

The Treasury manages most of Australia's financial relations with the IMF and capital contributions to the World Bank Group (International Bank for Reconstruction and Development, Multilateral Investment Guarantee Agency and International Finance Corporation), the Asian Development Bank and the EBRD.

The Treasury conducted routine financial transactions to manage existing obligations. These were timely and efficient and are summarised in Table 3.

Table 3: Financial transactions with international financial institutions in 2007-08

	Nature of transaction	Number of transactions	Total \$'000
Receipts			
IMF net remuneration	Revenue	4	3,713
IMF maintenance of value	Financing transaction	1	312,875
Payments			
IMF special drawing rights allocation charges	Expense	4	30,730
IMF Poverty Reduction and Growth Facility	Financing transaction	1	2,500
EBRD promissory note draw down	Financing transaction	1	1,105

Policy advice

Relations with East Asia

The Treasury continued to broaden and deepen its engagement with key Asian economies.

The Treasury continued to engage with Indonesia under the Australia Indonesia Partnership for Reconstruction and Development, which has committed \$1 billion of assistance to Indonesia since the Boxing Day tsunami. The Treasurer sits on the Joint Commission and the Secretary to the Treasury is one of the five agency heads on the Secretaries' Committee.

During 2007-08, the Treasury's strategic partnership with Indonesia's Fiscal Policy Office in the Ministry of Finance moved into a new phase with two Treasury deployees being based in the Fiscal Policy Office. The Treasury's engagement strategy is funded under the

Government Partnerships Fund initiative. It has a strong partnership focus, supporting Indonesian economic policy formulation capabilities and developing lasting institutional relationships.

In December 2007, the Treasurer attended the High Level Event on Climate Change for Finance Ministers in Bali. The event was part of the thirteenth Conference of Parties of the United Nations Framework Convention on Climate Change and provided an opportunity for Finance Ministers to discuss climate change issues from both a domestic and international perspective. The Treasurer outlined the need for all countries to contribute to a long-term and effective response to climate change, while noting that developed countries can assist developing countries to respond to the climate change challenge.

The Treasurer visited China in June 2008 and met officials from the Ministry of Finance, the Ministry of Commerce, the National Development and Reform Commission and the State Council. The Treasurer discussed strengthening institutional ties with the National Development and Reform Commission and promoted Australia's openness to foreign investment. The Treasurer also discussed the importance of regional and global forums, and how Australia and China can promote comprehensive and effective responses to global challenges. The Treasurer announced that Australia is to become an approved investment destination under the Qualified Domestic Institutional Investor scheme, enabling investment in Australia by entities regulated by the China Banking Regulatory Commission.

During 2008, the Treasury established an economic dialogue with the Indian Ministry of Finance. The dialogue allows for the shared discussion of economic conditions, collaborative work in regional forums (such as the East Asia Summit) and information sharing on issues of interest to both nations, beginning with Australia's experience of financial sector reform. The inaugural meeting was in New Delhi in April 2008. A second senior officials' meeting will likely be held early in 2009.

The Treasurer also attended the G8 Finance Ministers' Meeting Outreach in June 2008, in Japan. This was only the second time an Australian Treasurer has been invited to this meeting. The Treasurer presented Australia's perspective on a range of issues, including the macroeconomic outlook, rising food and commodity prices, and climate change. The meeting provided a timely opportunity for the Treasurer to meet bilaterally with G8 Outreach counterparts.

Australia strongly supported the East Asia Summit, with the Treasury being particularly engaged on the finance agenda, which will be a key topic at the 2008 Leaders' Meeting. The Treasury also supported Indonesia and Vietnam hosting two Senior Finance Officials' Meetings to progress the finance agenda.

Senior Treasury officials also presented at a range of forums on global and regional economic issues, including on East Asia's economic outlook and medium-term challenges, financial globalisation and open global markets.

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The Treasury received delegations from the region to discuss various policy issues including annual consultations with the Japanese and Korean Ministries of Finance on the global economic outlook, financial market stability and regional architecture. The Treasury also contributed to an AusAID funded Joint Fiscal Policy Course for Chinese and Indonesian Government officials, held from November to December 2007. As part of these courses, senior Treasury officials presented lectures on issues such as fiscal and monetary policy.

Treasury officials posted to Beijing, Jakarta and Tokyo reported on economic developments in their host countries and the wider region. They played a key role in strengthening relations with the Treasury's counterparts in their countries of accreditation, including through facilitating high-level meetings.

Relations with Pacific economies

The Treasury provides policy advice to ministers and agencies on economic and fiscal issues relating to the Pacific, particularly the Solomon Islands, PNG and Nauru where deployed Treasury officers work to build sustainable and effective economic ministries.

Australia-Papua New Guinea Ministerial Forum

The eighteenth Australia-Papua New Guinea Ministerial Forum took place in Madang in PNG on 23 April 2008. The Treasury contributed to ministerial economic briefing.

Economic reconstruction issues

Solomon Islands

Treasury officers were first deployed to the Solomon Islands as part of the Regional Assistance Mission to Solomon Islands in 2003-04. In 2007-08, six officers were deployed as advisors to the Ministry of Finance and Treasury. These officers have assisted Solomon Islanders to improve fiscal management, including developing a medium term fiscal strategy as part of the 2008 Solomon Islands Budget and building the capacity of local budget officials.

Treasury officers are also deployed within the Ministry of Finance and Treasury to engage with government, donors and other stakeholders to identify opportunities for economic reform and implement a micro-economic reform program. Treasury officers helped to: develop legislation to modernise the legal business environment and significantly reduce administrative and regulatory barriers and cost; introduce competition into the aviation sector; and facilitate the extension of financial services to rural areas via support for mobile banking and the introduction of a credit guarantee scheme.

PNG

Treasury officers were first deployed to the PNG Treasury in 2003-04 as part of the Enhanced Cooperation Program, a whole-of-government approach to improving governance on a sustainable basis. In 2008, a review found the program required a greater emphasis on capacity building, leading to its renaming as the Strongim Gavman Program (Tok Pisin for 'strengthening' or 'empowering government').

Deployees contribute to the improvement of budget processes in PNG by assisting in increasing budget transparency and more efficiently allocating resources. Implementation of a medium term fiscal strategy has allowed budget planning to take a more strategic approach to managing increased mining and petroleum tax revenue. Treasury officers also supported the PNG Treasury on a range of structural policy, taxation and investment issues.

Nauru

Since 2004, the Treasury has assisted the Nauru Ministry of Finance as part of a package of aid offered by Australia under a Memorandum of Understanding. Under these arrangements, two Treasury officers are deployed to Nauru, as Secretary of Finance and economic adviser. During 2007-08, these officers assisted in developing the 2008-09 Nauru Budget, worked to develop domestic economic and financial management capacity, liaised with donors to administer Nauru's debt position, and provided advice on further economic reforms to assist Nauru's continued economic recovery.

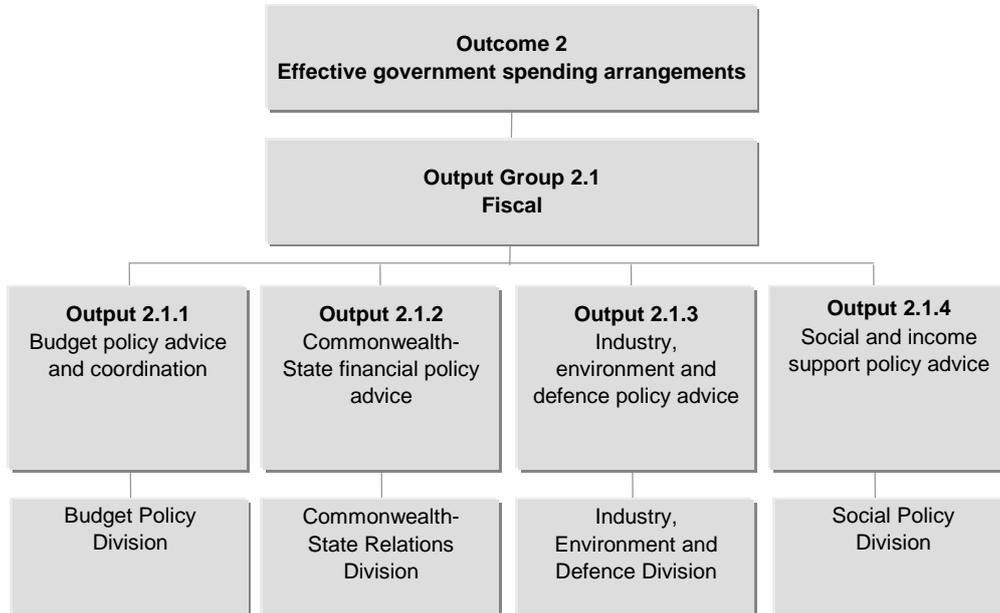
OUTCOME 2: EFFECTIVE GOVERNMENT SPENDING ARRANGEMENTS

The Treasury, through Fiscal Group, aims to ensure government spending arrangements are effective, as they are crucial to influencing strong sustainable economic growth and the improved wellbeing of Australians. Within the context of the wellbeing framework, ongoing advice to portfolio ministers from the Treasury assists in formulating, implementing and explaining government spending decisions. Fiscal Group provides advice on:

- the overall fiscal strategy and budget policies, and coordination of the budget and other reports required under the *Charter of Budget Honesty Act 1998*;
- Commonwealth-State financial policy, and arrangements related to state and territory fiscal and taxation issues, including implementing the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*;
- policy development in industry, environment, defence and national security policy; and
- policy development in social and income support policy, including health, the labour market, education, Indigenous welfare and immigration.

Fiscal Group has been involved intensively in the COAG reform processes established by the Government in December 2007, particularly in the working groups on health and ageing, productivity, climate change and water, Indigenous reform, housing, and business regulation and competition.

Figure 5: Outputs contributing to Outcome 2



KEY PRIORITIES IN 2007-08

Key priorities for Outcome 2 were to:

- develop budget policies and the budget and related financial papers;
- manage policies relating to the Australian Government's debt portfolio and its management;
- develop Commonwealth-State financial policy, and arrangements related to state and territory fiscal and taxation issues;
- oversee government expenditure programs, with a focus on those programs with significant economic, social or budgetary implications; and
- develop policies to promote the efficient and sustainable use of resources, to improve workforce participation and the competitiveness and productivity of Australian industries, thereby promoting higher levels of sustainable economic growth.

KEY OUTCOMES IN 2007-08

Key outcomes were:

- providing advice on the fiscal outlook and budget priorities that was consistent with the medium-term fiscal strategy;
- preparing, with the Department of Finance and Deregulation, the 2008-09 Budget (May 2008) and related financial papers — *Final Budget Outcome 2006-07* (September 2007), *Mid-Year Economic and Fiscal Outlook 2007-08* (MYEFO) (October 2007), and *Pre-Election Economic and Fiscal Outlook 2007* (PEFO)(October 2007);
- consulting with the Australian Office of Financial Management on the Commonwealth Securities and Investment Legislation Amendment Bill 2008 which supports the effective and efficient operation of the Treasury Bond and Treasury Bond futures markets;
- providing advice on operational issues relating to the Future Fund, and contributing to the development of the Higher Education Endowment Fund and the size of government contributions to the funds (the 2008-09 Budget announced that a new Education Investment Fund will subsume the Higher Education Endowment Fund);
- developing, as part of the COAG reforms, the new framework for federal financial relations which generally will commence on 1 January 2009. The new arrangements focus on the reform of specific purpose payments and establish National Partnership payments to facilitate or reward priority national reforms or fund specific projects;
- providing secretariat support for the Ministerial Council for Commonwealth-State Financial Relations Meeting on policy issues relevant to both the Australian Government and States;
- processing timely and accurate monthly payments of goods and services tax (GST) revenue to the States and calculating the need for budget balancing assistance to the States under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*;
- advising on industry, regional assistance, agriculture, environment, energy, climate change, defence and national security policy. In its central policy agency role the Treasury engages on these issues with a view to improving productivity and competitiveness, ensuring sustainable economic growth, meeting fiscal policy objectives and broader issues relating to wellbeing. The Treasury was engaged in a diverse range of issues and processes (specified under Output 2.1.3), including the work of the COAG Climate Change and Water Working Group and the modelling of climate change scenarios for the Garnaut Review of Climate Change;

- advising on social, education, Indigenous, labour market and health policy applying a broad central policy agency perspective. The Treasury was engaged in a diverse range of issues and processes (specified under Output 2.1.4), including the Government's workplace relations reforms, election commitments on education policy, the development of the Social Inclusion Agenda and the commitment to closing the gap in Indigenous disadvantage. The Treasury is engaged in five COAG Working Groups dealing with social policy issues which include providing advice on the new National Healthcare Agreement, the National Disabilities Services Agreement, the National Education Agreement and on potential National Partnership payments.

Table 4: Financial and staffing resources summary for Outcome 2

	Budget 2008 \$'000	Actual 2008 \$'000	Budget 2009 \$'000	
Administered expenses				
Appropriation Acts No. 1 and 3	-	-	-	
Appropriation Acts No. 2, 4 and 6	80,000	80,000	74,713	
Special Appropriations	42,673,196	42,373,196	45,280,000	
Other expenses	-	-	-	
Total administered expenses	42,753,196	42,453,196	45,354,713	
Revenue from Government				
Output Group 2.1	Fiscal			
Output 2.1.1	Budget policy advice and coordination	3,999	4,095	4,058
Output 2.1.2	Commonwealth-State financial policy advice	2,942	2,987	3,017
Output 2.1.3	Industry, environment and defence policy advice	8,313	8,725	8,719
Output 2.1.4	Social and income support policy advice	4,827	5,099	5,562
Total revenue from Government contributing to the price of departmental outputs		20,081	20,906	21,356
Revenue from other sources				
Output Group 2.1	Fiscal			
Output 2.1.1	Budget policy advice and coordination	52	56	55
Output 2.1.2	Commonwealth-State financial policy advice	43	46	43
Output 2.1.3	Industry, environment and defence policy advice	88	111	96
Output 2.1.4	Social and income support policy advice	68	80	81
Total revenue from other sources		251	293	275
Total revenue for departmental outputs (Total revenues from Government and other sources)		20,332	21,199	21,631
Price of departmental outputs				
Output Group 2.1	Fiscal			
Output 2.1.1	Budget policy advice and coordination	4,051	4,025	4,113
Output 2.1.2	Commonwealth-State financial policy advice	2,985	3,044	3,060
Output 2.1.3	Industry, environment and defence policy advice	8,401	8,021	8,815
Output 2.1.4	Social and income support policy advice	4,895	5,732	5,643
Total price of departmental outputs		20,332	20,822	21,631
Total estimated resourcing for Outcome 2 (Total price of outputs and administered expenses)		42,773,528	42,474,018	45,376,344
Average staffing levels (number)	137	132	154	

Note: The budget for departmental and administered expenses for 2008 and 2009 are from the *Portfolio Budget Statements 2008-09*.

OUTPUT 2.1.1: BUDGET POLICY ADVICE AND COORDINATION

Budget Policy Division in Fiscal Group and Tax Analysis Division in Revenue Group are responsible for the delivery of Output 2.1.1: Budget policy advice and coordination. Fiscal Group and Revenue Group contribute to Outcome 2 by providing advice to Treasury portfolio ministers on budget policy issues, current and prospective trends in Australian Government revenue and major fiscal aggregates, the fiscal framework and debt policy. In addition, Fiscal Group, with the Department of Finance and Deregulation, coordinates preparation of the budget and related documents.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to assessments of the budget position and outlook, and budget strategy and debt policy; and
- budget documents for which the Treasury has responsibility are presented effectively and other publications adequately inform public debate.

ANALYSIS OF PERFORMANCE

Advice on the budget outlook

During 2007-08, the Treasury provided advice to the Treasurer and other portfolio ministers on the Australian Government's budget position to inform overall policy settings and provide the context for the Government's decision making. The fiscal outlook was updated in the PEFO, MYEFO and the 2008-09 Budget.

As budget estimates are a joint responsibility, preparation of this advice required extensive liaison with the Department of Finance and Deregulation, the Australian Taxation Office (ATO) and other government departments and agencies.

Assessments of the budget position incorporated changes to the economic outlook, so advice was based on the most reliable and up-to-date information available at the time the budget was prepared.

Final budget outcome for 2006-07

The *Final Budget Outcome 2006-07* was published in September 2007. In 2006-07, the Australian Government general government sector recorded an underlying cash surplus of \$17.2 billion. This outcome was around \$3.6 billion higher than estimated at the 2007-08 Budget, reflecting higher than expected cash receipts and lower than expected cash payments.

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An accrual fiscal surplus of \$15.4 billion was recorded in the *Final Budget Outcome 2006-07*. This was \$3.5 billion higher than estimated at the time of the 2007-08 Budget, reflecting higher than expected revenue and lower than expected expenses in accrual terms.

PEFO

On 23 October 2007, the Secretary to the Treasury and the Secretary to the Department of Finance and Administration publicly released the PEFO. This provided updated information on the economic and fiscal outlook and is a requirement of the *Charter of Budget Honesty Act 1998*. In line with the Act, the PEFO was released within 10 days of the issue of the writ for the general election.

The PEFO estimated underlying cash and fiscal surpluses of \$14.4 billion for 2007-08. This was consistent with the outlook published in the MYEFO, but also reflected the impact of decisions taken before Parliament was dissolved.

Budget forecasts

The 2007-08 Budget, published in May 2007, contained forecasts of the fiscal outlook for 2007-08 and the following three years. The MYEFO, released on 15 October 2007, forecast an underlying cash surplus of \$14.8 billion for 2007-08, \$4.2 billion higher than the forecast at the time of the 2007-08 Budget. This reflected upward revisions to tax receipts, partially offset by upward revisions to cash payments reflecting new policy decisions. In accrual terms, the 2007-08 fiscal balance at MYEFO was \$14.9 billion, an upward revision of \$4.9 billion since the 2007-08 Budget.

The 2008-09 Budget, published in May 2008, estimated an underlying cash surplus for 2007-08 of \$16.8 billion, an upward revision of \$2.4 billion since the PEFO. This largely reflects upward revisions to estimated tax receipts from individuals, companies and superannuation funds, partially offset by higher estimated cash payments as a result of new policy measures taken since the PEFO. In accrual terms, the estimated fiscal surplus for 2007-08 was \$20.4 billion, an upward revision of \$6.0 billion since the PEFO.

Strategic budgetary advice

The Treasury assisted the Government in implementing its fiscal strategy by managing budget processes and advising Treasury portfolio ministers on the overall budget strategy and priorities. Good budget processes help governments make decisions based on accurate information, and allow proposals to be prioritised according to overall budget objectives.

Debt management policy

In consultation with the Australian Office of Financial Management, the Treasury provides advice to the Treasurer on strategic debt policy issues. This includes providing advice to the Treasurer on matters where debt management issues carry implications for other arms of government policy or the effective functioning of the economy. The Treasury also provides advice to the Treasurer on issues affecting the Government's

debt management operations, including issues of performance and governance, and issues relating to the well functioning of the Commonwealth Treasury Bond and Treasury Bond futures markets.

Following consultations with market participants about the adequacy of the volume of Treasury bonds on issue, the Government agreed in May 2008 to a range of initiatives designed to support the effective and efficient operation of the Treasury Bond and Treasury Bond futures markets. These initiatives included:

- increasing Treasury Bond issuance by up to a further \$25 billion (to a total of \$75 billion on issue), of which, \$5 billion will be issued during 2008-09;
- improving access to the securities lending facility (which is operated by the Australian Office of Financial Management) by financial market participants (by increasing the range of assets acceptable as collateral by the Australian Office of Financial Management in a securities lending arrangement); and
- extending the range of assets in which the Australian Office of Financial Management can invest.

To give effect to these initiatives, the Treasury, in consultation with the Australian Office of Financial Management, introduced the Commonwealth Securities and Investment Legislation Amendment Bill 2008 into Parliament in June 2008. This legislation received Royal Assent in July 2008.

Treasury Bond issuance program

In 2008-09, the volume and timing of fixed coupon issuance takes account of the need to have an appropriate range of Treasury Bonds available for inclusion in Treasury Bond futures baskets. In total, around \$10.3 billion of new issuance will occur in 2008-09, comprising \$5.3 billion of issuance to replace maturing bond lines during the year and \$5 billion of additional issuance in line with the Government's announcement in May 2008.

Specific details of the Government's forward debt issuance program in 2008-09 are outlined in the *Australian Office of Financial Management Annual Report 2007-08*.

Future Fund

During 2007-08, the Treasury continued to provide policy advice to portfolio ministers on operational issues relating to the Future Fund, including advice on further government contributions.

In line with the commitment in the 2007-08 Budget, a total of \$10.9 billion was transferred to the Future Fund. This comprised \$7 billion in August 2007 from the 2006-07 Budget surplus, plus \$3.9 billion in June 2008 from the final proceeds of the sale of Telstra 3. The balance of the Future Fund at 30 June 2008 was \$64.2 billion and the

Part 2: Report on performance

Future Fund is on track to fully fund the Government's public sector superannuation liabilities by the target date of 2020.

Further information regarding the performance of the Future Fund can be found in the *Future Fund Annual Report 2007-08*, at www.futurefund.gov.au.

Higher Education Endowment Fund

The Treasury contributed to the establishment of the Higher Education Endowment Fund, its longer-term investment arrangements and maximum grants rules through providing advice to the Department of Finance and Deregulation and the Department of Education, Employment and Workplace Relations. The fund's establishment was announced as part of the 2007-08 Budget and during 2007-08, total seed capital of \$6 billion from the 2006-07 Budget surplus was transferred to it.

Its balance at 30 June 2008 was \$6.2 billion.

The Higher Education Endowment Fund is expected to be subsumed into the Government's new Education Investment Fund in January 2009.

Three new nation building funds

In the 2008-09 Budget, the Government announced its commitment to establish three new nation building funds, the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund.

The Building Australia Fund will help finance economic infrastructure in transport (roads, rail, ports) and communications (broadband). Around \$20 billion initially will be allocated to it, including a portion of the 2007-08 and 2008-09 Budget surpluses, once realised, and around \$2.7 billion from the sale of Telstra 3. The Government also will close the Communications Fund and transfer the balance of this fund, currently valued at around \$2.4 billion, to the Building Australia Fund.

The Education Investment Fund will provide financing for capital investment in higher education and vocational training. Initial government contributions are around \$11 billion, comprising a portion of the 2007-08 and 2008-09 Budget surpluses, once realised, and \$6.2 billion currently invested in the Higher Education Endowment Fund.

The Health and Hospitals Fund will fund investment in health facilities, including renewal and refurbishment of hospitals, medical technology equipment and major medical research facilities and projects. The Health and Hospitals Fund will be established with an initial allocation of \$10 billion from the 2007-08 and 2008-09 Budget surpluses, once they are realised.

During 2008-09, the Treasury will contribute to the establishment of these three new nation building funds by providing advice to the Department of Finance and Deregulation and other relevant agencies regarding the governance and management arrangements for these funds.

Contribution to public debate and awareness

Budget publications

The Government's budget publications are available free at www.budget.gov.au. Widespread access to these documents helps the public keep informed of budget decisions and the fiscal outlook.

The Treasury and the Department of Finance and Deregulation jointly prepare the Government's budget documentation. The Treasury also prepares accessible summaries for non-specialist readers. This year, these were the general budget overview, budget at a glance, budget highlights and an overview of the Working Families Support Package.

Generally, the Treasury is primarily responsible for preparing budget documentation on:

- the principal budget aggregates and the Government's fiscal strategy and objectives;
- economic assumptions underpinning the budget estimates;
- taxation revenue estimates;
- taxation expenditure estimates; and
- the conduct of Commonwealth-State financial relations.

Reporting requirements are set out in the *Charter of Budget Honesty Act 1998* and are consistent with leading international practice. To help achieve better fiscal outcomes, the charter promotes:

- disciplined budget management, with fiscal policy based on principles of sound fiscal management;
- transparency, with regular reports stating fiscal objectives and expected outcomes;
- accountability, with information allowing an informed assessment of the conduct of fiscal policy; and
- reporting against external accounting standards.

Under the charter, budget reporting follows an annual cycle comprising the budget in May, a mid-year update before 31 January and a final budget outcome in the following September. The charter also stipulates that an intergenerational report be produced on a five-yearly cycle.

The budget website at www.budget.gov.au continues to be improved to present information in a format that is easy for readers to access and understand.

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In 2007-08, the Treasury met with international delegations from the OECD, China, Vietnam, Jordan and PNG, interested in learning about Australia's budgeting and reporting framework.

Tax Expenditures Statement

The Treasury prepares the annual Tax Expenditures Statement to estimate the value of concessions, benefits and incentives delivered to taxpayers through the tax system. The *Tax Expenditures Statement 2007*, published in January 2008, reported on the cost of tax expenditures with estimates and projections to 2010-11. Production of this statement assists transparency and encourages public scrutiny of government programs delivered through the tax system.

OUTPUT 2.1.2: COMMONWEALTH-STATE FINANCIAL POLICY ADVICE

Commonwealth-State Relations Division in Fiscal Group is responsible for the delivery of Output 2.1.2: Commonwealth-State financial policy advice.

Commonwealth-State Relations Division contributes to Outcome 2 by providing high quality advice on Commonwealth-State financial policy and arrangements related to state and territory fiscal and taxation issues.

Commonwealth-State Relations Division also manages the administration of the GST revenue payments to the states and territories.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to Commonwealth-State financial relations;
- effective presentation of relevant information, including budget documentation and other publications adequately informs public debate; and
- payments to State and Territory Governments are calculated accurately according to agreed formulas and paid according to agreed schedules.

ANALYSIS OF PERFORMANCE

Ministerial Council for Commonwealth-State Financial Relations

The Ministerial Council, comprising the Commonwealth Treasurer and all State and Territory Treasurers, considers on-going reform of Commonwealth-State financial relations and oversees the implementation and operation of the *Intergovernmental Agreement on the Reform of Commonwealth State Financial Relations*. The Treasury provides secretariat support to the Ministerial Council. At Ministerial Council meetings, treasurers discussed reform of specific purpose payments, national reporting frameworks for spending on indigenous services, Commonwealth payments to the States (including the distribution of GST revenue among the States), GST administration issues and state tax reform. The Treasury advised the Treasurer on the key issues.

The Australian Loan Council consists of the Prime Minister and the Premier, or Chief Minister, of each State and Territory. However, in practice, each member is represented by a nominee, usually the Treasurer of that jurisdiction, with the Commonwealth Treasurer as Chairman. The Australian Loan Council meets annually to consider each jurisdiction's expected borrowing for the next financial year. The Treasury advised the Treasurer on key issues and coordinated arrangements for this meeting.

Heads of Treasuries

At the Heads of Treasuries meetings, the treasuries of the Australian and state governments share information on common issues. The Secretary to the Treasury and his state counterparts met five times in 2007-08 to discuss issues such as the operation of the Intergovernmental Agreement, economic conditions, demographics and longer-term fiscal issues, taxation and financial issues, reform of arrangements for specific purpose payments and the Australian Government's review into Australia's taxation and transfer systems.

GST Administration Sub-committee

The Treasury chairs the sub-committee, which comprises officials from the Treasury, the ATO and state treasuries. The sub-committee met twice in 2007-08 and considered proposals to modify the GST base and the administration of the GST by the ATO. The sub-committee monitored the operation of the GST Administration Performance Agreement between the States and the ATO, and discussed GST revenue and payments, GST policy and administrative issues.

GST revenue

Under the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, all GST revenue is provided to the States. GST revenue is the largest payment made by the Australian Government to the States. The Australian Government provides all GST

revenue in monthly payments, distributed in accordance with relativities determined by the Treasurer, following recommendations by the Commonwealth Grants Commission and discussion at the Ministerial Council meeting. In 2007-08, the Treasury administered payments of GST revenue to the States of \$42.3 billion. All payments were calculated correctly and paid on the scheduled dates.

The ATO collects GST revenue on behalf of the States, and the States compensate the Australian Government for the costs that the ATO and the Australian Customs Service incur in administering and collecting GST revenue. Estimated costs incurred in 2007-08 were \$631 million. The Treasury monitored the payments made by the States to ensure all were administered accurately.

Budget balancing assistance

The Australian Government guaranteed that, in the transitional years of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*, each State's budgetary position would be no worse than had the reforms to Commonwealth-State financial relations not been implemented. The Treasury provided advice to the Treasurer on how much funding each State would have received under the previous financial arrangements to enable the Treasurer to determine the guaranteed minimum amount.

To meet its guarantee, the Australian Government undertakes to pay budget balancing assistance to cover any shortfall between GST revenue and each State and Territory's guaranteed minimum amount. In 2007-08, each State's GST revenue entitlement exceeded its determined guaranteed minimum amount, so no State required this assistance.

Specific purpose payments

The Australian Government makes specific purpose payments as a contribution to particular activities, such as health or education that are the constitutional or traditional responsibility of the States. The Australian Government provided the States with specific purpose payments totalling \$32 billion in 2007-08. The Treasury provided advice on a range of specific purpose payments to relevant portfolio ministers.

The Treasury also supported the Treasurer in developing a new framework for federal financial relations. The new framework focuses on reforming specific purpose payments to reduce Commonwealth prescriptions on service delivery by the States, in conjunction with clearer roles and responsibilities and enhanced outcomes based public accountability. In addition, the Commonwealth will provide a new form of payment — National Partnership payments — to facilitate or reward priority national reforms or to fund specific projects.

The new framework for federal financial relations will commence from 1 January 2009, with COAG monitoring all aspects. The Treasury is assisting in developing a new intergovernmental agreement to underpin the new framework and entrench the concept and practice of cooperative working relationships between governments.

International relations

In 2007-08, the Treasury continued to participate in the OECD Network on Fiscal Relations across levels of government and presented to visiting overseas delegations on funding arrangements between the Australian Government and the States.

Budget publications

Information on the Government's financial relations with State and local governments is in Budget Paper No. 3, *Australia's Federal Relations 2008-09*. This is the main public source of information on Australian Government payments to the States and local governments. It also informs the States of their expected payments in the upcoming financial year, including GST revenue and specific purpose payments.

This budget paper also includes information on fiscal developments in the States, as well as any policy changes affecting the relationship between the Australian and State governments.

The division also contributed to the 2007-08 MYEFO and the *Final Budget Outcome 2006-07*.

OUTPUT 2.1.3: INDUSTRY, ENVIRONMENT AND DEFENCE POLICY ADVICE

Industry, Environment and Defence Division in Fiscal Group is responsible for the delivery of Output 2.1.3: Industry, environment and defence policy advice.

Industry, Environment and Defence Division contributes to Outcome 2 by working with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government on industry, regional assistance, agriculture, environment, energy, climate change, defence and national security. While other departments have primary responsibility for policy and programs in these areas, Industry, Environment and Defence Division focuses on improving productivity and competitiveness, and ensuring sustainable economic growth, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2007-08, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and COAG.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to industry, environment and defence policy; and
- effective presentation of relevant information adequately informs public debate.

ANALYSIS OF PERFORMANCE

Environment and agriculture policy

The Treasury provided advice to the Treasurer on environmental and agricultural issues including water reform, fisheries, quarantine, drought policy, rural structural adjustment and natural resource management issues.

Treasury's advice covered the Natural Heritage Trust Phase III, the Environmental Stewardship Program and the renewal of the Agriculture — Advancing Australia package, announced in the 2007-08 Budget. Additionally, advice was provided on specific agricultural commodity issues, including wheat, dairy, sugar and wool.

During 2007-08, the Treasury also contributed to inter-departmental committees dealing with a range of policy issues, including water policy, wheat marketing arrangements and drought.

Energy and climate change policy

The Treasury provided advice to the Treasurer on energy and climate change issues including climate change adaptation, greenhouse gas emissions abatement, emissions trading, low emissions technologies and energy efficiency, uranium mining and nuclear energy, renewable energy and alternative fuels, energy security and international engagement on climate change issues.

The Treasury provided advice in response to the work of the Task Group on Emissions Trading and on the development of the Carbon Pollution Reduction Scheme Green Paper. The Treasury also supported the Treasurer's participation in the High Level Event on Climate Change for Finance Ministers, part of the United Nations (UN) Framework Convention on Climate Change meeting in Bali.

The Treasury also provided economic modelling and advice on climate change policy to the Government. This included modelling of several scenarios relating to climate change policy that were provided to the Garnaut Review of Climate Change. The Treasury is also working closely with the Department of Climate Change to provide economic modelling in support of the development of the Government's Carbon Pollution Reduction Scheme.

The Treasury participated in the work of the COAG Climate Change and Water Working Group, including on adaptation, energy efficiency, renewable energy targets and measures to complement the Carbon Pollution Reduction Scheme. The Treasury contributed to a number of inter-departmental committees on energy and greenhouse policy during the year.

Industry policy

The Treasury provided advice on industry assistance, export assistance, science and innovation, arts, sports and regional policy issues, including regional development and natural disaster relief.

The Treasury also provided advice on the Government-initiated reviews into the automotive industry, textile, clothing and footwear industries, the national innovation system and export policies and programs. The Treasury participated in workshops on the modelling undertaken by the Productivity Commission for the automotive and textile, clothing and footwear reviews.

The Treasury also participated in inter-departmental committee meetings and forums during 2007-08, including ones to consider the national tourism strategy, chemicals and plastics regulation, the Senate Inquiry into Australia's Indigenous visual arts and crafts sector and the *Australian Manufacturing* and *Servicing our Future* reports produced by the House of Representatives Standing Committee on Economics, Finance and Public Administration.

National security policy

The Treasury provided advice on a range of defence and national security issues, including initial advice in relation to the Defence White Paper. The Treasury also provided advice on non-defence security arrangements, including initiatives to enable the Australian Federal Police to stabilise and build capacity in other countries and expand the Australian Federal Police.

The Treasury has continued to participate in the Secretaries' Committee on National Security that examines and advises on proposals going to the National Security Committee of Cabinet. It is also a member of the Defence Procurement Advisory Board, as well as a participant in inter-departmental processes concerning Defence Capability Plan projects, Defence estate, and various aspects of domestic security arrangements.

OUTPUT 2.1.4: SOCIAL AND INCOME SUPPORT POLICY ADVICE

Social Policy Division in Fiscal Group is responsible for the delivery of Output 2.1.4: Social and income support policy advice.

Social Policy Division contributes to Outcome 2 by working with other departments and agencies to develop and provide policy advice to Treasury portfolio ministers and the Government in the areas of social, education, indigenous, labour market and health policy. While other departments have major responsibility for policy and program implementation in these areas, Social Policy Division focuses on improving participation, productivity and economic sustainability and competitiveness, taking account of fiscal policy objectives and broader issues relating to wellbeing.

During 2007-08, the Treasury participated in a wide range of policy development processes, worked with other agencies to develop policy, provided coordination comments on policy for Cabinet ministers, and briefed the Treasurer for his participation in Cabinet and the budget process. Social Policy Division also assisted in the preparation of briefings for the other Treasury portfolio ministers.

After the 2007 election, the division was restructured to reflect the priorities of the current Government and responsibilities under COAG Working Groups arrangements. In the restructure, the social policy unit was split into three new units: education policy, indigenous policy and social inclusion policy.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to social, education, indigenous, labour market and health policy issues; and
- effective presentation of relevant information adequately informs public debate.

ANALYSIS OF PERFORMANCE

Labour market policy

During 2007-08, the Treasury provided advice to the Treasurer on income support, immigration, employment services and workplace relations matters.

Workplace relations

The Treasury provided advice to the Treasurer to help put into effect the first phase of the Government's workplace relations reforms. The Treasury continues to provide policy advice to the Government on workplace relations reforms.

The Treasury worked with the Department of Education, Employment and Workplace Relations to develop submissions to the Australian Fair Pay Commission's 2008 Minimum Wage Review and to develop and present a whole-of-government approach to this policy.

Immigration

During 2007-08 the Treasury provided advice to the Treasurer on a range of immigration matters, including expanding the Migration Program and the Humanitarian Program, improving the responsiveness of the temporary business long-stay visa (457 visa subclass) and the abolition of temporary protection visas.

Employment services

Treasury contributed to the development of the new employment services arrangements announced in the 2008-09 Budget.

Health policy

Policy development processes spanned a range of health and aged care issues. The Treasury advised the Treasurer on Medicare, the Pharmaceutical Benefits Scheme, private health insurance, aged and community care, and veterans' affairs.

In 2008, the Treasury also began work on exploring the impact of chronic disease on the economy and the potential economic benefits of a greater focus on preventative health.

Education policy

During 2007-08, the Treasury made a significant contribution to education policy issues. The Treasury played an important role in implementing the Government's election commitments around the *Education Revolution* including trade training centres, computers in schools and universal access to early childhood education.

Social policy

During 2007-08, the Treasury provided policy advice in supporting the development of the Government's Social Inclusion Agenda, including work on early priorities such as jobless families, children at greatest risk of long term disadvantage, locational disadvantage and homelessness. The Treasury also assisted in progressing work to develop a national compact with the not-for-profit sector and measures to alleviate problem gambling.

The Treasury also provided policy advice on income support payments. This included providing advice on measures relating to families and child care in the 2008-09 Budget, including establishing means tests for Family Tax Benefit (Part B) and the Baby Bonus, and increases to the Child Care Tax Rebate.

The Treasury also played a key role in developing and publishing the Government's *Working Families Support Package* as part of the 2008-09 Budget.

Indigenous policy

During 2007-08, the Treasury played a significant role in providing advice on Indigenous policy. The Treasury is involved in cross-departmental work on the Government's commitment to closing the gap in Indigenous disadvantage. The Treasury has focused on the Cape York welfare pilots, the Single Indigenous Budget Submission process and the Northern Territory Emergency Response.

COAG

All areas of Social Policy Division have been heavily involved with the COAG working groups.

The Treasury has actively engaged in the Health and Ageing Working Group, the Productivity Agenda Working Group, the Indigenous Reform Working Group, the Housing Working Group and the Business Regulation and Competition Working Group. This included providing policy advice on a range of issues including: the new National Healthcare Agreement, the National Disabilities Services Agreement and the National Education Agreement.

The Treasury also contributed advice on potential national partnership payments aimed at driving reforms of national significance.

The reform areas identified as a priority by COAG include preventative health, complex chronic disease management, hospitals (including the primary care interface and activity-based funding reform), harmonisation of occupation health and safety regulation, reforms to address the educational needs of disadvantaged school communities and reforms to help close the gap in indigenous disadvantage.

OUTCOME 3: EFFECTIVE TAXATION AND RETIREMENT INCOME ARRANGEMENTS

Effective taxation and retirement income arrangements are crucial to the Government's objectives for the economy and hence the wellbeing of Australians. Contributing to better tax policy and better tax law are key elements of the Treasury's role as a central policy agency.

The Treasury, through Revenue Group, has primary responsibility within the Australian Public Service for providing high-quality advice to Treasury portfolio ministers on taxation and retirement income policies and legislation. Advice is formulated through an integrated process which includes consultation with business and community interests and close cooperation with the ATO and relevant Commonwealth departments.

During 2007-08, the Treasury provided advice to the Government on a range of business and personal and indirect tax policy issues, including key Government election commitments to introduce personal tax cuts worth almost \$47 billion over the forward estimates period with effect from July 2008; reduce withholding tax on certain distributions by Australian managed investment trusts to foreign residents; introduce a 50 per cent Education Tax Refund for eligible educational expenses from 1 July 2008; and introduce First Home Saver Accounts to provide a simple, tax effective way for Australians to save a deposit for their first home. The Treasury's advice to the Government on business tax policy issues included advice on the Australian Carbon Pollution Reduction Scheme, Australian property trusts and stapled securities, family trust elections, the demutualisation of health insurers, the taxation of financial arrangements, and the tax agents regulatory reform proposals.

On 13 May 2008, the Government announced a review of Australia's tax system. The review will be undertaken by Australia's Future Tax System Review Panel, which will look at the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century. The review will encompass Australian Government and State taxes, except the GST, and interactions with the transfer system. The Treasury is providing secretariat support to the review panel. A Treasury paper, *Architecture of Australia's Tax and Transfer System*, was released on 6 August 2008.

Significant progress was made in tax treaty negotiations with key investment partners during 2007-08, including the signing of new tax treaties with Japan and South Africa. Following the Government's January 2008 announcement, the Treasury also analysed and consulted extensively on Australia's future tax treaty negotiation program and policy.

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The Treasury also provided advice on the revenue aspects of superannuation, retirement incomes and savings policy, including the proposal to make superannuation lump sum payments tax free to terminally ill people.

During the 2007 federal election, the Treasury estimated revenue costs, undertook modelling and analysed taxation policy proposals as part of the election costings process.

The Treasury also designs and brings to Parliament the Government's taxation and retirement income legislation. In 2007-08, a total of 23 taxation and superannuation bills containing 82 measures were introduced into Parliament. Of these, three bills containing 38 measures were introduced by the previous government.

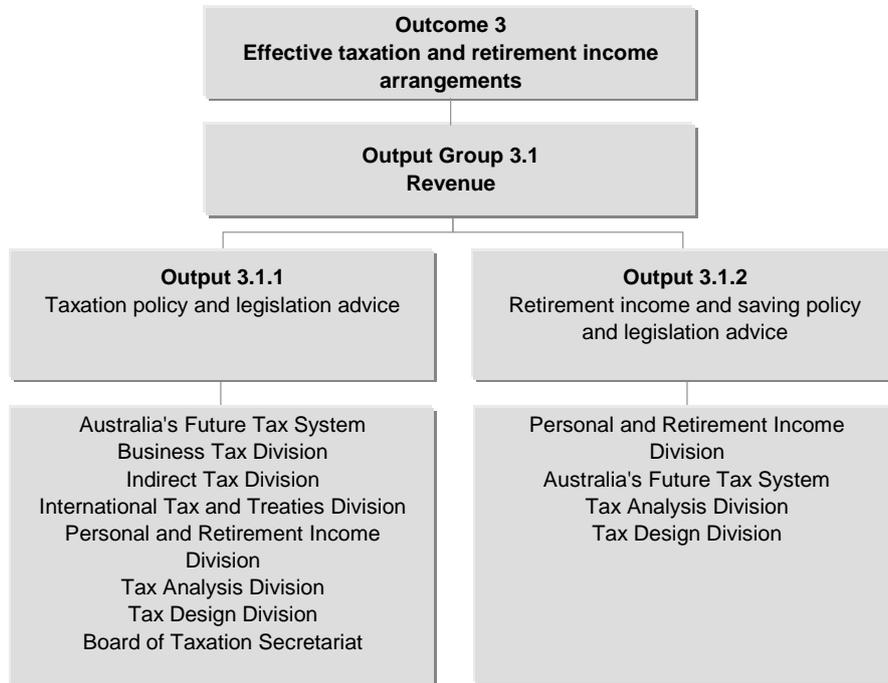
During 2007-08 the Treasury continued to consult extensively with stakeholders on taxation and superannuation measures. It also provided secretariat support to the Tax Design Review Panel, appointed on 8 February 2008 to examine ways to streamline the introduction of tax legislation and improve the quality of tax law changes, particularly through enhanced community consultation.

ORGANISATIONAL CHANGES

In response to changing work priorities and the cessation of new policy funding, the Tax System Review Division was merged with Business Tax Division, Personal and Retirement Income Division and Tax Design Division in January 2008.

Following the announcement of the review of Australia's tax system and formation of the Australia's Future Tax System Review Panel on 13 May 2008, a secretariat to support the panel was established in Revenue Group, with staff drawn from across the Treasury, as well as other departments and agencies.

Figure 6: Outputs contributing to Outcome 3



KEY PRIORITIES IN 2007-08

Key priorities in 2007-08 were to:

- design taxation policies and legislative design proposals which contribute to the reform of the Australian taxation system in terms of efficiency, equity and transparency whilst minimising compliance and administrative costs;
- examine retirement income and saving issues, including superannuation and other income support arrangements, intended to improve the wellbeing of Australians;
- provide advice on those issues identified by the Government as its key strategic priorities;
- continue to develop quantitative modelling to identify labour force participation effects of Government policy proposals, including tax and income support changes;
- meet obligations under the *Charter of Budget Honesty Act 1998*;
- continue to implement decisions arising from the previous government's Review of Aspects of Income Tax Self Assessment;

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- progress the review and renegotiation of tax treaties with key investment partners, pursue tax information exchange agreements with offshore financial centres, contribute to the tax policy work of the OECD and continue the program of reform of Australia's international tax arrangements;
- implement the final stages of the previous government's Simpler Superannuation measures; and
- continue to improve processes and outputs in developing advice on taxation and retirement income policies (including consultation processes and design of legislation).

Other key priorities identified through the year were to:

- establish a secretariat to support the Australia's Future Tax System Review Panel;
- contribute to the review panel's work;
- establish a secretariat to support the Tax Design Review Panel's examination of ways to streamline the introduction of tax legislation and improve the quality of tax laws;
- reduce compliance costs through improved procedures for assessing the compliance costs of new measures and seek opportunities in child care, personal tax, capital gains tax, fringe benefits tax, not-for-profit sector and international tax;
- estimate revenue costs, undertake modelling and analyse taxation policy proposals, particularly indirect taxes, business and personal income taxes, superannuation, social security and retirement policies, in the context of the 2007 election costings process required under the *Charter of Budget Honesty Act 1998*;
- implement the Government's election commitments, including personal income tax cuts, an Education Tax Refund and First Home Saver Accounts;
- implement other government commitments, including making superannuation lump sum payments tax free to terminally ill people;
- model and analyse the distributional impact of price changes (arising from indirect tax changes) on households; and
- finalise legislation relating to the tax exempt asset financing reforms and the tax agent services regulatory reform proposals, and develop a substantial program of other tax legislation.

KEY OUTCOMES IN 2007-08

Advice provided to the Government on taxation policies and legislative design proposals contributed to reform of the Australian taxation system in terms of efficiency, equity and transparency whilst minimising compliance and administrative costs, including:

- advice on implementing the election commitments on personal income tax cuts, an Education Tax Refund and First Home Saver Accounts;
- advice on business tax policy issues, including the carbon pollution reduction scheme, tax exempt asset financing reforms, taxation of rights issues, Australian property trusts and stapled securities, family trust elections, demutualisation of health insurers, scrip for scrip rollover provisions and corporate restructures, taxation of financial arrangements, and the tax agent services regulatory reform proposals;
- advice on indirect tax policy initiatives, including luxury car tax changes, goods and services tax law improvements, excise measures and other budget announcements;
- advice on personal tax policy initiatives, including removing tax deductibility for political donations, tightening the current fringe benefits provisions as they apply to certain benefits, improving the integrity of the employee share schemes and removing the potential for double taxation of certain employee share scheme arrangements;
- advice on superannuation and retirement incomes policies, including temporary residents superannuation and making superannuation lump sum payments tax free to terminally ill people; and
- advice on Australia's international tax arrangements reflecting efforts to maintain the integrity of the tax base while providing a competitive and modern international tax system, including the Government's key election commitment to reduce the withholding tax rate on certain distributions from Australian managed investment trusts to foreign residents.

Secretariat support was provided to the Australia's Future Tax System Review Panel, and the Treasury developed the paper entitled *Architecture of Australia's Tax and Transfer System*, released on 6 August 2008.

Secretariat support was provided to the Tax Design Review Panel, appointed in February 2008 to examine ways to streamline the introduction of tax legislation and improve the quality of tax laws.

Support was provided to the Board of Taxation, including to its reviews of off-market share buybacks, the tax arrangements applying to managed investment

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trusts, Australia's foreign source income anti-tax deferral regimes, and the review of the legal framework for the administration of the GST.

Consultation materials included a discussion paper on the National Rental Affordability Scheme, a discussion paper for the Review of Unlimited Amendment Periods and the second exposure draft Tax Agent Services Regulatory Reform Bill.

Progress in tax treaty negotiations with key investment partners included the signing of new tax treaties with Japan and South Africa. Following the Government's January 2008 announcement, extensive consultation and analysis was undertaken regarding Australia's future tax treaty negotiation program and policy.

Australia's tax information exchange agreements with Bermuda and the Netherlands Antilles entered into force, and progress was made on concluding tax information exchange agreements with several other jurisdictions.

Procedures were enhanced to assess and quantify revenue and compliance costing collaboration with the ATO.

Quantitative modelling provided better capacity to identify the labour force participation and distributional effects of government policy proposals.

The Household Modelling and Analysis Unit was established to expand and consolidate modeling capabilities in personal tax, government transfers and household expenditure.

The final stages of the Simpler Superannuation reforms were implemented.

Table 5: Financial and staffing resources summary for Outcome 3

	Budget 2008 \$'000	Actual 2008 \$'000	Budget 2009 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	-	-	-
Appropriation Acts No. 2 and 4	-	-	-
Special Appropriations	-	-	-
Other expenses	-	-	-
Total administered expenses	-	-	-
Revenue from Government			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	30,652	33,730	34,776
Output 3.1.2 Retirement income and saving policy and legislation advice	11,556	9,021	12,204
Total revenue from Government contributing to the price of departmental outputs	42,208	42,751	46,980
Revenue from other sources			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	395	508	410
Output 3.1.2 Retirement income and saving policy and legislation advice	168	147	180
Total revenue from other sources	563	655	590
Total revenue for departmental outputs (Total revenues from Government and other sources)	42,771	43,406	47,570
Price of departmental outputs			
Output Group 3.1 Revenue			
Output 3.1.1 Taxation policy and legislation advice	31,047	31,671	35,186
Output 3.1.2 Retirement income and saving policy and legislation advice	11,724	9,228	12,384
Total price of departmental outputs	42,771	40,899	47,570
Total estimated resourcing for Outcome 3 (Total price of outputs and administered expenses)	42,771	40,899	47,570
Average staffing levels (number)	287	275	307

Note: The budget for departmental and administered expenses for 2008 and 2009 are from the *Portfolio Budget Statements 2008-09*.

OUTPUT 3.1.1: TAXATION POLICY AND LEGISLATION ADVICE

Revenue Group provides a wide range of services to Treasury portfolio ministers to support their role in delivering effective taxation arrangements. Specific group outputs include overall strategic advice, policy and legislation advice, revenue forecasting, policy costing and provision of information services.

Six divisions contribute to Output 3.1.1: Taxation policy and legislation advice. Business Tax Division, Indirect Tax Division, International Tax and Treaties Division and Personal and Retirement Income Division are responsible for delivery of taxation and income

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support policy advice. Tax Analysis Division prepares revenue forecasts, costings and quantitative analysis of taxation policy proposals, provides strategic analysis of key developments in the tax system and current policy issues, and develops and maintains models for labour force participation and tax-related analysis. Tax Design Division assists Revenue Group by formulating a strategic direction on organisational issues for the group, improving the tax design process, managing the legislation program, providing budgeting and administration services to the group, assisting in governance issues, and developing and leading key relationships.

Revenue Group also hosts the Australia's Future Tax System Review Secretariat which supports the panel the Government established to conduct a comprehensive review of Australia's tax system.

During 2007-08, Revenue Group also provided secretariat services to the Board of Taxation. The Board of Taxation publishes its own annual report on its website at www.taxboard.gov.au.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing decisions relating to taxation policy and legislation;
- effective presentation of relevant information, including budget documentation and other publications adequately informs public debate;
- tax law is developed in accordance with the principles of good law design; and
- legislation is delivered according to government programs.

ANALYSIS OF PERFORMANCE

Business taxation

Policy advice on business taxation issues covered the consolidation regime, treatment of losses, taxation of financial arrangements, family trust elections and a range of other tax issues. The Treasury also provided advice on systemic issues in tax policy and administration that affect the tax system's operation, especially its efficient administration.

Company loss recoupment rules

The Treasury developed legislation to implement the removal of the \$100 million cap on the same business test. The measure was included in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

The Office of Parliamentary Counsel and the Treasury partly developed draft legislation to implement the modification of the continuity of ownership test for companies that have multiple classes of shares. The Government announced in the 2008-09 Budget that it will proceed with these changes.

Taxation of financial arrangements

The Treasury continued to advance a major tax law reform project to improve tax accounting for financial arrangements. A bill introduced into Parliament in September 2007 lapsed when Parliament was prorogued. The Government has decided to proceed with these measures and a consultation paper on the interaction with consolidation measures was released on 23 June 2008. The Treasury is continuing to consult with key industry and professional bodies.

Family trust elections

The 2008-09 Budget announced changes to reduce the scope for family trusts to use tax losses. The definition of 'family' in the family trust election rules was to be changed to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse. The measure was to preclude family trusts from making a once-off variation to the test individual specified in a family trust election (other than specifically in relation to the 2007-08 income year or a marriage breakdown). The measure was included in Tax Laws Amendment (2008 Measures No. 4) Bill 2008, introduced into Parliament on 26 June 2008. The Senate rejected this measure on 3 September 2008.

Australian property trusts and stapled securities

The 2007-08 Budget announced changes to Division 6C of the *Income Tax Assessment Act 1936* to allow certain stapled entities, such as Australian listed property trusts, to restructure with an interposed head trust without Division 6C taxation consequences. Capital gains tax rollover relief is available for investors in a restructured stapled group. In addition, public unit trusts can acquire controlling interests in, or control, a foreign real estate investment entity whose business consists primarily of investing in land outside Australia to derive rent, without Division 6C tax consequences. The Treasury undertook confidential targeted stakeholder consultations on draft legislation. The measure was included in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

Board of Taxation review of off-market share buybacks

The Treasury assisted the Board of Taxation in its review of the taxation treatment of off-market share buybacks and provided advice to the Government about the review.

Demutualisation of private health insurers

The Treasury provided policy advice to the Government and, following consultation with industry, developed legislation to provide relief from capital gains tax for policyholders of not-for-profit private health insurers that convert to for-profit insurers by demutualising.

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Legislation implementing these changes was included in Tax Laws Amendment (2008 Measures No. 4) Bill 2008, which has passed both Houses of Parliament. These amendments will apply from 1 July 2007.

National Rental Affordability Scheme

The Treasury provided policy advice on the National Rental Affordability Scheme. This measure provides assistance to construct new affordable housing to rent to low to moderate income families and individuals at 20 per cent below market rates in the particular area. The Treasury also assisted the Department for Families, Housing, Community Services and Indigenous Affairs in implementing the National Rental Affordability Scheme, including preparing a technical discussion paper detailing the scheme.

Tax exempt asset financing reforms

The Treasury undertook confidential targeted consultations with the business sector and provided policy advice on the tax exempt asset financing reforms. Amendments to implement those reforms were included in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

Taxation of rights issues

The Treasury provided policy advice and undertook confidential targeted consultations with the business sector on draft legislation to restore the taxation treatment of rights issues that existed before the decision of the High Court of Australia (HCA) in *Commissioner of Taxation v McNeil* [2007] HCA 5. The measure was included in Tax Laws Amendment (2008 Measures No. 3) Bill 2008, which received Royal Assent on 20 September 2008.

Assistance to industry

As a result of reviews on the effectiveness of the screen media tax concessions and the research and development tax concession, a number of legislative changes were recommended. The Treasury developed legislation that implemented these changes. These measures were included in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

Carbon sinks

The Treasury provided advice and developed legislation regarding the tax consequences of establishing carbon sink forests. This measure was included in *Tax Laws Amendment (2008 Measures No. 2) Act 2008*, which received Royal Assent on 24 June 2008.

Australian Carbon Pollution Reduction Scheme

The Treasury provided advice on the taxation of permits in the Australian Carbon Pollution Reduction Scheme. A Green Paper setting out a number of the Government's

preferred positions on the scheme was published in July 2008. Interested parties were consulted on taxation aspects of the schemes both before and after the release of the Green Paper.

Scrip for scrip rollover provisions and corporate restructures

The Treasury provided policy advice and undertook confidential targeted consultations with the business sector on modifications to the scrip for scrip capital gains tax rollover provisions for corporate restructures. The Government announced these changes in the 2008-09 Budget.

Changes to the market value substitution rule for widely held entities

The Treasury developed legislation to amend the tax law to provide that the capital gains tax market value substitution rule does not apply where a share in a widely held company, or a unit in a widely held unit trust, is cancelled, surrendered or brought to an end in other similar ways when an arms-length transaction has occurred. This change was introduced into Parliament on 20 March 2008 in *Tax Laws Amendment (2008 Measures No. 2) Act 2008*, which received Royal Assent on 24 June 2008.

Partial capital gains tax rollover for statutory licences

The Treasury developed legislation that extends the existing statutory licence when one or more new licences are issued in consequence of a licensee's licence(s) ending and provides for a partial capital gains tax rollover when the licensee is offered non licence capital proceeds such as cash. These changes were introduced into Parliament on 16 August 2007 in *Tax Laws Amendment (2007 Measures No. 5) Act 2007*, which received Royal Assent on 25 September 2007.

Small business capital gains tax concessions

The Treasury provided policy advice to the Government on changes to increase access to the small business capital gains tax concessions for taxpayers owning a capital gains tax asset used in a business by a related entity and for partners owning a capital gains tax asset used in the partnership business, with effect from the 2007-08 income year. The Government announced these changes in the 2008-09 Budget.

Board of Taxation review of the tax arrangements applying to managed investment trusts

On 22 February 2008, the Government announced the Board of Taxation would review the taxation arrangements applying to managed investment trusts. The review will provide advice on options for introducing a specific tax regime for managed investment trusts to reduce complexity, increase certainty and minimise compliance costs. The board is to make recommendations and provide a final report around the middle of 2009. The Treasury is providing support for this review.

Tax agent services regulatory reform

The Treasury continues to advance the legislation, regulations and explanatory materials for the tax agent services regulatory reform proposals. The Government approved the proposals and public consultation on a second exposure draft Bill, with regulations and explanatory materials.

Open-ended reviews

The Treasury released a discussion paper on open-ended review periods in the income tax law. Replacing open-ended review periods with a set period, after which a taxpayer's liability is final, would offer taxpayers greater certainty.

Other budget measures

The Treasury provided policy advice to the Government on cancelling interests in widely held trusts, applying excise to condensate and extending the effective life of software for depreciation purposes. The Government announced the changes in the 2008-09 Budget.

Indirect taxation

The Treasury provided advice on GST, luxury car tax and excise and customs duty issues.

GST

The Treasury provided advice to the Government and prepared for implementation a number of amendments to the GST law following agreement from the States and Territories. These included measures announced in the 2008-09 Budget to ensure the interactions between provisions in the GST law do not allow real property transactions to be structured to reduce GST liability, and to make supplies of mobile telephone global roaming services not subject to GST consistent with Australia's treaty obligations under the International Telecommunications Regulations (the Melbourne Agreement).

The Treasury also provided advice, sought the agreement of the States and Territories and developed legislation regarding the refund provisions and limitation period following the Federal Court of Australia (FCA) decision in the case of *KAP Motors Pty Ltd v Commissioner of Taxation* [2008] FCA 159. This measure was included in Tax Laws Amendment (2008 Measures No. 3) Bill 2008, which received Royal Assent on 20 September 2008.

Carbon pollution reduction scheme

The Treasury provided advice to the Government on the GST treatment of permits in the carbon pollution reduction scheme. This was included in the Green Paper setting out a number of the Government's preferred positions on the scheme that was published in July 2008.

The Board of Taxation review of the legal framework for GST administration

On 11 June 2008, the Assistant Treasurer announced the Board of Taxation would review the legal framework for administering the GST. The focus of the review will be streamlining and improving the operation of the GST, reducing compliance costs and removing anomalies. The board is to report to the Government by December 2008. The Treasury is providing support for the review.

Luxury car tax

The Government decided to increase the luxury car tax rate from 25 per cent to 33 per cent, from 1 July 2008. The Treasury provided advice on this measure and provided input to the preparation of the necessary legislative amendments to implement the measure.

Excise and customs duty – other excisable beverages

The Government increased the excise and excise-equivalent customs duty on ‘other excisable beverages not exceeding 10 per cent alcohol by volume’ to the same rate as full strength spirits with effect on and from 27 April 2008. The Treasury provided advice on this measure and provided input to the preparation of the Excise Tariff Proposal to increase the excise rates that were tabled by the Minister for Health and Ageing in the House of Representatives on 13 May 2008 following the proposal’s gazettal on 26 April 2008.

Personal taxation

Advice to the Government on the design and implementation of personal tax measures sought to promote economic growth and workforce participation, and improve the international competitiveness of Australia compared with other OECD countries.

Reductions in personal income tax

The 2007-08 MYEFO provided tax cuts worth \$34 billion over the forward estimates period (to 2010-11) from 1 July 2008. The 2008-09 Budget deferred the previously announced reductions in the top marginal tax rate for taxpayers on incomes of more than \$180,000 per year until beyond 2010-11, saving \$5.3 billion over the forward estimates period. Together, these changes deliver almost \$47 billion in tax cuts over the forward estimates period. The tax cuts, which included changes to the low income tax offset, were included in the *Tax Laws Amendment (Personal Income Tax Reduction) Act 2008*, which received Royal Assent on 23 June 2008.

From 1 July 2008:

- the 30 per cent marginal tax rate threshold increased from \$30,001 to \$34,001;
- the low income tax offset increased from \$750 to \$1,200 and continues to phase out from \$30,000. Taxpayers eligible for the full low income tax offset

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do not pay tax until their annual income exceeds \$14,000 (up from \$11,000); and

- taxpayers eligible for the low income tax offset can receive half of the benefit through their regular pay rather than receiving it all as a lump sum when their income tax returns are assessed.

From 1 July 2009:

- the 30 per cent marginal tax rate threshold will increase to \$35,001;
- the 40 per cent marginal tax rate will fall to 38 per cent; and
- the low income tax offset will increase to \$1,350 and continue to phase out from \$30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$15,000.

From 1 July 2010:

- the 30 per cent marginal tax rate threshold will increase to \$37,001;
- the 38 per cent marginal tax rate will fall to 37 per cent; and
- the low income tax offset will increase to \$1,500 and continue to phase out from \$30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income exceeds \$16,000.

Senior Australians will benefit from these changes. The low income tax offset adds to the tax offset available to seniors so that seniors eligible for the senior Australians tax offset will have an effective tax free threshold of \$28,867 for singles and \$24,680 for each member of a couple from 1 July 2008. These thresholds will rise to \$29,867 for singles and \$25,680 for each member of a couple from 1 July 2009 and to \$30,685 for singles and \$26,680 for each member of a couple from 1 July 2010.

Education tax refund

The Treasury advised the Government on the introduction of a 50 per cent education tax refund for eligible educational expenses from 1 July 2008. Eligible families can claim up to \$750 for each child undertaking primary school studies (that is, a refund of up to \$375 per child, per year) and \$1,500 for each child undertaking secondary school (that is, a refund of up to \$750 per child, per year). These amounts will be indexed annually from 1 July 2009.

The education tax refund will apply to expenses incurred from 1 July 2008 and may be claimed when lodging a 2008-09 income tax return. Those eligible will receive the full value of the education tax refund, regardless of their income tax liability.

Medicare levy surcharge thresholds

The Treasury advised the Government and developed legislation to increase the Medicare levy surcharge thresholds for singles and members of a couple with effect from 1 July 2008. For singles, the threshold will increase from \$50,000 to \$100,000 and for couples, the threshold will increase from \$100,000 to \$150,000.

The thresholds, above which taxpayers pay the Medicare levy surcharge if they do not have adequate private patient health insurance, have not been changed since the surcharge was introduced on 1 July 1997.

Tightening eligibility for the dependency tax offsets

The Treasury advised the Government and developed legislation on introducing an income threshold of \$150,000 to determine eligibility for the Dependent Spouse, Housekeeper, Child Housekeeper, Invalid Relative and Parent/Parent-in-law tax offsets, with effect from 1 July 2008. This measure will better target the benefit these offsets provide.

From 1 July 2009, the definition of income for these offsets will be aligned with that applying to family assistance payments, and the \$150,000 threshold will be indexed.

These changes were included in the *Families, Housing, Community Services and Indigenous Affairs and Other Legislation Amendment (2008 Budget and Other Measures) Act 2008*, which received Royal Assent on 30 June 2008.

Means testing of Government support — expanded definitions of income

The Treasury advised the Government on expanding the definition of income used to determine eligibility for government support programs, to include certain 'salary sacrificed' contributions to superannuation, net financial investment losses and reportable fringe benefits, from 1 July 2009.

Affected tax programs include the senior Australians tax offset, pensioner tax offset, Medicare levy surcharge and dependency tax offsets.

Political donations

The Treasury advised the Government and developed legislation to remove the tax deduction for donations of contributions and gifts individuals and business make to political parties, with effect from 1 July 2008.

Employee share schemes

The Treasury advised the Government of a problem with the election requirements which are designed to ensure that the value of any discount flowing from an employee's participation in an employee share scheme is correctly included in assessable income. The integrity of the employee share scheme provisions will be improved from 1 July 2008.

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The Treasury also advised of the potential for double taxation to arise in certain employee share schemes that use employee share trusts.

These changes were included in the *Tax Laws Amendment (Budget Measures) Act 2008* which received Royal Assent on 30 June 2008.

Fringe benefits tax

The Treasury advised the Government of inconsistencies in the treatment of certain fringe benefits. The exemption provided to certain work related items will be limited to where the item is used primarily for work purposes. Meals consumed on an employer's premises under a salary sacrifice arrangement will no longer be exempt.

These changes were included in the *Tax Laws Amendment (Budget Measures) Act 2008* which received Royal Assent on 30 June 2008.

The Treasury also provided advice on the valuation of benefits provided to both an employee and an associate in relation to a jointly held asset, announced in the 2008-09 Budget.

First Home Saver Accounts

The Treasury advised the Government and developed legislation to implement its election commitment to introduce First Home Saver Accounts.

First Home Saver Accounts will provide a simple, tax effective way for Australians to save a deposit for their first home through a combination of Government contributions and low taxes on earnings. Special simplified disclosure rules will apply, as well as prudential arrangements for account providers. First Home Saver Accounts may be offered from 1 October 2008.

The legislation to implement the measure, the *First Home Saver Accounts Act 2008*, the *First Home Saver Accounts (Consequential Amendments) Act 2008* and the *Income Tax (First Home Saver Accounts Misuse Tax) Act 2008* received Royal Assent on 25 June 2008.

International taxation and tax treaties

The Treasury implemented or initiated a range of changes to international tax arrangements during 2007-08. The Treasury also undertook to identify the international consequences arising from domestic tax reforms such as the taxation of financial arrangements.

Withholding tax rate to foreign residents

Tax Laws Amendment (Election Commitments No. 1) Act 2008, which received Royal Assent on 23 June 2008, (and related imposition Acts and Regulations), which took effect from 1 July 2008, implemented the Government's election commitment to reduce the withholding tax rate on certain distributions from Australian managed investment trusts to

foreign residents. This involves replacing the 30 per cent non-final withholding tax regime applying to distributions of Australian source net income (other than dividends, interest and royalties) by Australian managed investment trusts with a final withholding tax regime. The new regime has effect for income years starting on or after 1 July 2008.

Residents of jurisdictions with which Australia has effective exchange of information arrangements, as specified in the *Taxation Administration Regulations 1976*, will be subject to a withholding tax at 22.5 per cent for the first income year (starting on or after 1 July 2008), 15 per cent for the second and 7.5 per cent for third and later income years. As an interim measure, in 2008-09, foreign residents may claim deductions for expenses relating to their fund payments. These foreign residents will be taxed at 22.5 per cent on any amount net of deductions. Residents of other jurisdictions are subject to a 30 per cent final withholding tax.

The restriction of the lower withholding tax rates to residents of information-sharing jurisdictions safeguards the integrity of the new regime and signals Australia's commitment to effective exchange of information with other jurisdictions to reduce opportunities for international tax avoidance and evasion.

Thin capitalisation rules

Tax Laws Amendment (2007 Measures No. 5) Act 2007, which received Royal Assent on 25 September 2007, contained two amendments to the thin capitalisation rules. The first removes certain long term equity interests from the definition of 'excluded equity interest', and applies to income years starting on or after 1 July 2002 — when the definition first took effect. The second introduces a choice mechanism under which a particular type of authorised deposit-taking institution (ADI) — known as a specialist credit card institution — may, in certain circumstances, be treated for thin capitalisation purposes as if it was not an ADI but rather a financial entity. It applies to income years starting on or after 1 July 2004 — when the relevant ADIs were first introduced.

The Government announced in the 2008-09 Budget its intention to amend the thin capitalisation regime to accommodate certain impacts arising from the 2005 adoption of Australian equivalents to International Financial Reporting Standards. These amendments will allow entities to depart from the current accounting treatment in relation to certain intangible assets and to exclude deferred tax assets and liabilities and surpluses and deficits in defined benefit superannuation funds when doing their thin capitalisation calculations. The Treasury has progressed this initiative, with draft legislation released on 11 July 2008 for consultation.

Strengthening Australia's finance markets

On 20 May 2008, the Government announced a package of initiatives to strengthen Australia's financial markets, including a new interest withholding tax exemption for bonds issued in Australia by state government central borrowing authorities. These amendments are expected to improve the depth, liquidity and price discovery in state government bond markets, and are being drafted in consultation with industry.

Board of Taxation review into Australia's foreign source income anti-tax deferral regimes

The previous Government announced on 10 October 2006 that the Board of Taxation would review Australia's foreign source income anti-tax deferral regimes (that is, the controlled foreign company, the foreign investment fund, the transferor trust and the deemed present entitlement rules). The review aims to identify ways to reduce the complexity and compliance costs associated with the anti-tax deferral regimes and examine whether the regimes strike an appropriate balance between effectively countering tax deferral and unnecessarily inhibiting Australian companies from competing in the global economy. The Treasury assisted the board in the review which, following extensive consultations, released a position paper on 12 March 2008 setting out a framework and high level principles. Several issues papers on specific topics for further consultation were released on 19 May 2008.

Comprehensive tax treaties

Australia has a tax treaty network of over 40 treaties. Bilateral tax treaties promote closer economic cooperation between Australia and other countries by eliminating possible barriers to trade and investment caused by overlapping taxing jurisdictions. Tax treaties offer protection for Australian businesses investing offshore, and reduce or eliminate double taxation of income flows between treaty partner countries. They also create a framework through which tax administrations can combat international fiscal evasion. The Government announced a review of Australia's tax treaty negotiation program and policy on 25 January 2008. As part of the review, the Treasury received over 20 submissions and conducted consultation with industry through the Tax Treaties Advisory Panel.

During 2007-08, negotiations were held with three countries and tax treaties were signed with Japan and South Africa. Tax policy advice was provided on various international agreements the Government is negotiating including free trade agreements and film co-production agreements. Tax policy advice was also provided on privileges and immunities requests.

Tax information exchange agreements

Australia continued to make progress in concluding tax information exchange agreements with low-tax jurisdictions. Two agreements, with Bermuda and the Netherlands Antilles, entered into force during 2007-08 and several others are approaching finalisation. They provide a legal basis for full exchange of taxpayer information, for both criminal and civil tax purposes, between Australia and the partner. These agreements are important elements in Australia's broader efforts to combat offshore tax evasion and avoidance, and complement other international initiatives aimed at addressing money laundering and the financing of terrorism.

International representation

The Treasury represented Australia on the OECD Committee on Fiscal Affairs and associated working parties and forums dealing with international tax matters, particularly

those related to the development of comprehensive tax treaty policy and the harmful tax practices initiative. In addition, the Treasury represented Australia at the annual meeting of the United Nations Committee of Experts on International Cooperation in Tax Matters. The Treasury also provided instructors to three international courses on tax and treaty issues.

Australia's Future Tax System

In the 2008-09 Budget, the Government announced a comprehensive review of Australia's tax system to look at the current tax system and make recommendations to position Australia to deal with the demographic, social, economic and environmental challenges of the 21st century.

During 2007-08, the review panel was formed to lead the review. The panel is chaired by the Secretary to the Treasury, Dr Ken Henry AC, and comprises Dr Jeff Harmer (Secretary to the Department of Families, Housing, Community Services and Indigenous Affairs), Professor John Piggott (University of New South Wales), Ms Heather Ridout (Australian Industry Group), and Mr Greg Smith (Australian Catholic University).

The Treasury established a secretariat to support the panel and commenced work on the discussion paper outlining the architecture of Australia's tax and transfer system, released on 6 August 2008.

Policy evaluation frameworks

The Treasury, in collaboration with the ATO, has enhanced its procedures for assessing and quantifying the compliance cost impacts of new taxation measures. The procedures are designed to improve the quality of advice provided to ministers and respond to the increasing community and government concern to achieve an appropriate balance between the benefits of tax regulation and the efficiency, compliance and administration costs associated with its implementation.

The Treasury has continued to increase capacity through quantitative modelling to identify the labour force participation effects of government policy proposals, including tax and income support changes. This has included working with the Melbourne Institute tax and transfer simulator behavioural micro-simulation model developed by the Melbourne Institute.

The Treasury also has improved micro-simulation models for personal income tax and household income and expenditure.

Technical corrections and minor improvements

Measures to make technical corrections and amendments to the law and other minor improvements involving no significant policy change were included in the *Tax Laws*

Amendment (2007 Measures No. 4) Act 2007, which received Royal Assent on 24 September 2007, and in the Tax Laws Amendment (2008 Measures No. 4) Bill 2008, which was introduced on 24 June 2008.

Tax Design Review Panel

The Tax Design Review Panel appointed by the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs on 8 February 2008 examined options to reduce the delay between announcing a change to the tax law and introducing it; on how to improve the quality of the law through enhanced community consultation; and on methods to increase community input into prioritising changes to the tax laws. The panel was supported by a Treasury secretariat and reported to the Government on 30 April 2008.

Publications

Review of the Income Tax Exemption for Structured Settlements

The Treasury provided secretariat services to the Review of the Income Tax Exemption for Structured Settlements conducted by Mr Alan Cameron AM. The review was presented to the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs on 17 December 2007.

OUTPUT 3.1.2: RETIREMENT INCOME AND SAVING POLICY AND LEGISLATION ADVICE

The Treasury provided advice to the Government on the revenue aspects of superannuation, retirement income and saving policy, and advised on developing effective retirement income and saving policy in the context of demographic change.

Personal and Retirement Income Division contributes to Output 3.1.2: Retirement income and saving policy and legislation. The division consults widely across the private and public sectors. It has close relationships with Tax Analysis Division which prepares revenue forecasts, costings of policy proposals and other quantitative studies, and provides strategic analysis of tax-related issues, and with Tax Design Division which formulates a strategic direction on organisational issues and provides key services, such as managing the legislation program, budgeting and administration.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing decisions relating to retirement income and saving policy and legislation;
- effective presentation of relevant information, including budget documentation and other publications adequately informs public debate;
- law relating to retirement income and saving policy is developed in accordance with the principles of good law design; and
- legislation is delivered according to government programs.

ANALYSIS OF PERFORMANCE

Benefit payments to the terminally ill

Legislation was enacted to give effect to a government decision to make lump sum superannuation benefits paid to individuals with a terminal medical condition tax free, with effect from 1 July 2007. A new condition of release for superannuation also was created to allow individuals with a terminal medical condition full access to their benefits, irrespective of their age or employment status.

The necessary taxation amendments in the *Tax Laws Amendment (2008 Measures No. 2) Act 2008* received Royal Assent on 24 June 2008.

Trans-Tasman retirement savings portability

The Treasury participated, with New Zealand officials, on the joint Trans-Tasman Retirement Savings Portability Working Group. The working group was set up to examine options to improve the portability of savings between the Australian and New Zealand retirement savings schemes.

Other superannuation measures

The Treasury provided policy advice, developed legislation and implemented other superannuation issues, including:

- as part of the process of implementing the superannuation reforms legislated during 2006-07, minor amendments were made to the treatment of superannuation benefit payments; and
- the Treasury assisted the Attorney-General's Department in developing legislation to remove discrimination against members of same-sex couples and their children from Commonwealth (defined benefit) superannuation schemes and related tax provisions.

OUTCOME 4: WELL FUNCTIONING MARKETS

The Treasury, through Markets Group, contributes to Australia's continuing economic development and the wellbeing of its people through a well functioning market economy and financial system. Improving the operation of markets is intended to underpin stronger, sustainable economic growth and enhanced living standards.

The efficient operation of Australia's product and services markets is supported by a combination of laws, institutions, policies and administrative practices. The Treasury provides advice to the Government on forming and implementing policies to support well functioning markets. The Treasury's advice and other outputs help maintain and improve markets, so investors and consumers can have confidence and certainty in making decisions that are well-informed and free from market distortions and impediments. The Treasury also maintains the operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Panel.

Markets Group is responsible for providing advice on policy processes and reforms that promote a secure financial system and sound corporate practices; remove impediments to competition in product and services markets; and safeguard the public interest in matters such as consumer protection and foreign investment.

Markets Group is involved in consultations, particularly where reforms or new government measures are proposed, with other Australian Government agencies, State and Territory governments, industry, the general public and other stakeholders.

A key focus for Markets Group in 2007-08 was promoting the economic benefits of the national regulation of markets. The group is strengthening the impact of microeconomic reform through the delivery of a national approach to market design. This work included providing advice on structural reforms in key sectors, particularly in energy, transport and infrastructure regulation.

In 2007-08, Markets Group provided advice on a range of issues affecting the operation of markets. For financial markets, that included advice on the prudential framework, market access and pricing, market integrity and investor protection, company law and corporate governance issues, corporate insolvency and corporate financial reporting. For markets more generally, that included advice on structural reforms in key sectors, particularly in energy, transport, and infrastructure, and the operation of competition and consumer policy, including issues of financial literacy. Markets Group also provided professional actuarial services, and advice on foreign investment and trade policy.

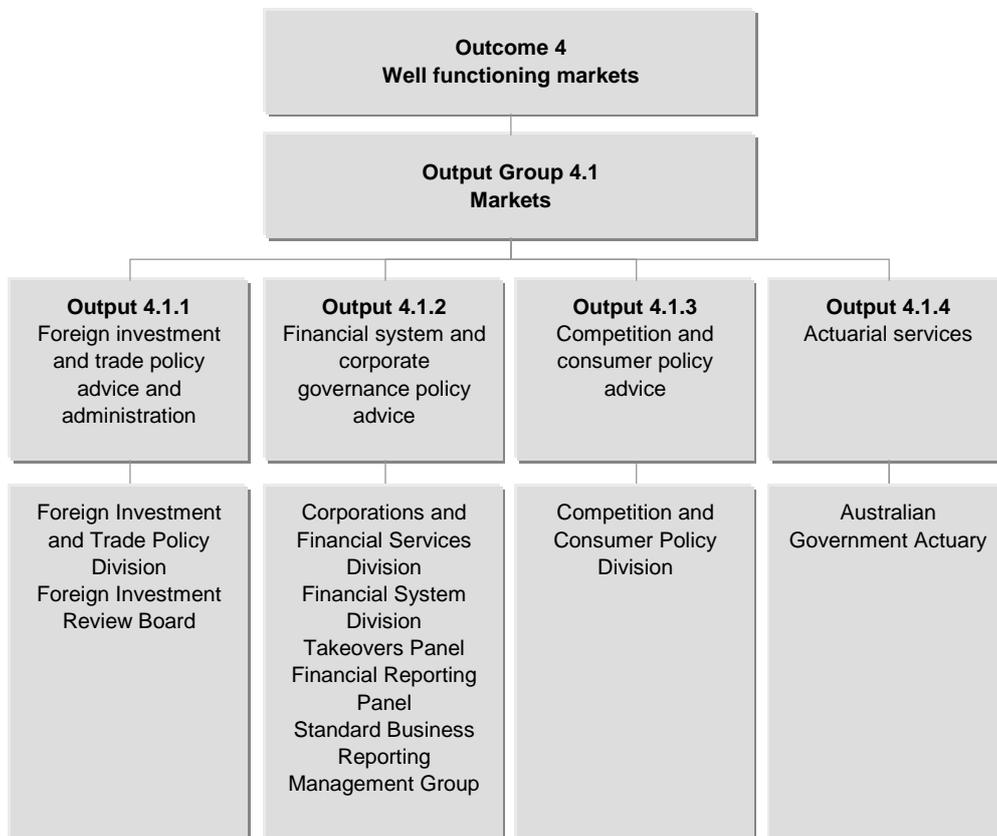
Markets Group also continued to progress the single economic market concept under the Closer Economic Relations Agreement with New Zealand. An important step forward was the signing of the *Agreement between the Government of Australia and the Government of New*

Zealand in Relation to Mutual Recognition of Securities Offerings, which establishes a mutual recognition regime for the issue of securities and interests in managed investment schemes, and provides a framework for the mutual recognition of companies.

In addition, Markets Group continued to participate in negotiating free trade agreements. Negotiations for the Australia-Chile Free Trade Agreement concluded in 2007-08, while negotiations progressed with China, Japan, Malaysia, the Association of Southeast Asian Nations (ASEAN) and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).

Treasury portfolio ministers indicated these outputs effectively contributed to their needs in formulating and implementing policies in support of well functioning markets.

Figure 7: Outputs contributing to Outcome 4



KEY PRIORITIES IN 2007-08

Key priorities for Markets Group in 2007-08 were to:

- develop policies relating to general foreign investment and trade, including foreign investment proposals;

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- develop and implement policies relating to the financial system, corporations and the financial services sector;
- develop and implement policies relating to a sound and efficient prudential framework;
- develop and implement policies relating to issues emerging in the general insurance sector;
- develop and implement policies relating to a range of initiatives to improve the frameworks for corporate insolvency and corporate groups;
- develop and implement policies relating to structural reform in key sectors of the economy, including energy and transport and communications, in conjunction with other government departments and agencies;
- develop and implement policies relating to competition and consumer policy matters, including legislative amendments to the *Trade Practices Act 1974*;
- implement trade and investment policy priorities in relation to the Government's commitment to negotiate six free trade agreements — China, Japan, ASEAN, Malaysia, Chile and the Gulf Cooperation Council — to continue working towards the single economic market concept with New Zealand as well as provide input into trade and investment issues in APEC, G-20 and the World Trade Organization (WTO);
- monitor international and local compliance with foreign investment and trade policies, including by processing foreign investment applications, and further examining reform options with a focus on reducing compliance and administrative costs;
- progress a range of international cooperation issues, particularly with the United States and New Zealand, as well as enhance international engagement with Indonesia;
- represent Australia's interest in forums such as the OECD and APEC;
- progress a dialogue with other APEC economies on financial sector reform to strengthen policy makers' understanding of issues, challenges and policy options for advancing the development of financial sectors and, in particular, private capital markets in the region;
- work with international agencies to progress cooperation in financial system regulation, corporate governance, financial reporting, auditing, and corporate insolvency, including developing ways to further integrate the Australian and US financial services sectors, with a focus on regulatory recognition, including through the Financial Services Committee established under the Australia-United States Free Trade Agreement, and developing a single

economic market with New Zealand for corporate regulatory frameworks and financial services;

- improve the regulatory framework for corporations and financial services, including by implementing wide-ranging reforms to simplify and reduce the regulatory burden on business, progressing reforms relating to corporate insolvency and corporate groups, financial reporting, financial services and financial markets, and implementing reforms to the *Insurance Contracts Act 1984*;
- advise on the implications of turbulence in credit markets;
- enhance the arrangements and tools available to government to deal with distressed financial institutions;
- improve regulation and competition in the financial sector by facilitating well functioning and competitive financial markets, particularly by addressing banking competition and insurance market issues and improving the effectiveness of regulation, developing a single economic market with New Zealand in banking services, and monitoring market supervision issues;
- develop and implement the reform agenda for competition policy, including the competition and regulation streams of the COAG National Reform Agenda and advance microeconomic reforms in key infrastructure markets including energy, transport and communications;
- implement reforms relating to the competition and consumer provisions of the Trade Practices Act — including changes to legislation as a result of the Government response to the Senate small business report and the introduction of criminal sanctions for cartels — and contribute to the review of the Australian consumer policy framework;
- develop and deliver a range of financial literacy initiatives to build the capacity of Australians to better manage their money and take advantage of significant reforms to the finance sector;
- provide support for ministers in considering a range of appointments to statutory and non-statutory bodies such as the Productivity Commission, the Australian Competition and Consumer Commission (ACCC), and the Australian Securities and Investments Commission (ASIC);
- provide secretariat services to the Financial Reporting Council, Foreign Investment Review Board, Financial Sector Advisory Committee, the Ministerial Council for Consumer Affairs and the Commonwealth Consumer Affairs Advisory Council; and

- maintain successful operations of the Standard Business Reporting Management Group, Australian Government Actuary, Financial Reporting Panel and Takeovers Panel.

KEY OUTCOMES IN 2007-08

In 2007-08, Markets Group advice covered a broad agenda, including corporate governance, market integrity, financial system safety, financial product safety, financial literacy, competition and consumer policy, and protection of the national interest under Australia's foreign investment policy.

Key group outcomes included:

- working on a range of international investment cooperation issues, particularly the Trade and Investment Framework with Indonesia and a Trade and Economic Framework with India. Markets Group also contributed to free trade agreement negotiations with Japan, Chile, the Gulf Cooperation Council, China, Malaysia and — in partnership with New Zealand — ASEAN;
- contributing to the work of international forums such as the G-20, IMF and Financial Stability Forum in developing policy responses to financial market turbulence;
- providing advice to the Government on Australia's financial sector crisis management arrangements, including a proposal for a financial claims scheme which would bring forward payments to bank depositors and insurance policyholders in the event that a financial institution fails. The Government announced these measures on 2 June 2008, as part of a broader response to the financial market turbulence of 2007-08;
- developing a mutual recognition arrangement with the United States Securities and Exchange Commission (SEC) on the regulation of securities markets. If a mutual recognition arrangement is reached, it will be the first implemented under the SEC's new mutual recognition policy, and will improve cross-border capital flows, open new markets for Australian advisers and increase regulatory coordination between ASIC and the SEC;
- working with ASIC and the Department of Foreign Affairs and Trade to successfully secure Australia's status as an approved destination under China's qualified domestic institutional investor scheme. The Treasurer announced on 10 June 2008 that mainland Chinese entities regulated by the China Banking Regulatory Commission could invest in Australia. This will increase the opportunities for Australian funds managers to offer their services to Chinese entities wishing to invest in Australia;
- undertaking preparatory work to implement the Government's plan to develop Australia as a financial services centre. The Treasury assisted the

Government to co-host, together with the Government of New South Wales, a Financial Services Hub Summit in Sydney on 31 July 2008;

- developing the Account Switching Package the Treasurer announced on 9 February 2008 to promote competition in the financial sector by making it easier for consumers to switch financial products and providers;
- overseeing the implementation of the recommendations arising from the Review of Corporate Governance of Statutory Office Holders (Uhrig Review). This involved implementing new financial and governance frameworks for the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) with the enactment of the *Governance Review Implementation (AASB and AUASB) Act 2008*. The Act also implemented consequential changes to the functions of the Financial Reporting Council. The new arrangements commenced from 1 July 2008;
- providing advice to the Government on implementing the prudential standards under the Basel II Capital Framework developed by the Australian Prudential Regulation Authority (APRA) for authorised deposit-taking institutions. The new standards came into effect on 1 January 2008;
- assisting the Government to implement measures resulting from, and consistent with, the recommendations of the Taskforce on Reducing Regulatory Burdens, announced on 15 August 2006. The Financial Sector Legislation Amendment (Simplifying Regulation and Review) Bill 2007 received Royal Assent on 24 September 2007, and the Financial Sector Legislation Amendment (Review of Prudential Decisions) Bill 2008 received Royal Assent on 26 May 2008;
- developing the Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Bill 2007. The Bill received Royal Assent on 24 September 2007 and includes measures to enhance Australia's general insurance prudential regime by requiring all direct offshore foreign insurers operating in Australia to be authorised;
- developing the Green Paper, *Financial Services and Credit Reform: improving, simplifying and standardising financial services and credit regulation*, which set out a plan to bring Australia's credit regulation under one system. At its 3 July 2008 meeting, COAG agreed that the Commonwealth will assume responsibility for the regulation of mortgages, mortgage brokers and margin loans. COAG further agreed in-principle that the Commonwealth will assume responsibility for the national regulation of other forms of consumer credit, including personal loans, credit cards, payday loans and micro lending;
- developing the Trade Practices Legislation Amendment Bill 2008 to strengthen the prohibition against the misuse of market power in section 46 of the Trade Practices Act, and to address difficulties in establishing a successful

predatory pricing case under that section. The Bill was introduced into the House of Representatives on 26 June 2008;

- drafting the Trade Practices Amendment (Cartel Conduct and Other Measures) Bill 2008 to criminalise serious cartel conduct. The Government intends to introduce the Bill into the Parliament in the Spring 2008 sittings;
- coordinating the Government response to the ACCC report, *Petrol Prices and Australian Consumers: report of the ACCC inquiry into the price of unleaded petrol*. The final Government response released on 15 April 2008 announced a National Fuelwatch Scheme. Legislation to enact the Fuelwatch Scheme, the National Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008, passed the House of Representatives on 5 June 2008;
- assisting in preparing a directive from the Minister for Competition and Consumer Policy to the ACCC to commence an inquiry into the competitiveness of retail prices for standard groceries;
- taking a leading role in the activities of the COAG Business Regulation and Competition Working Group to progress reforms in 27 areas where duplicative and inconsistent regulation across jurisdictions imposes an unnecessary burden on business;
- developing advice on a further package of amendments to the National Access Regime (Part IIIA of the Trade Practices Act), to promote the efficient operation and use of infrastructure and further enhance the efficiency of investment in key infrastructure markets;
- taking a leading role in the activities of the COAG Infrastructure Working Group, which is supporting the work of Infrastructure Australia, a statutory board established to advise governments on the planning, coordination and efficient use of transport, energy, communications and water infrastructure that could materially improve national productivity;
- working closely with the Department of Broadband, Communications and the Digital Economy, the ACCC and other central agencies on developing government policy on the regulation of the telecommunications industry;
- playing a leading role in progressing the APEC leaders' agenda to implement structural reform. The Treasury delivered the policy and logistics for the APEC Ministerial Meeting on Structural Reform, held in Melbourne on 3-5 August 2008. This was the first APEC ministerial meeting wholly dedicated to structural reform;
- undertaking a more active and strategic role in APEC's investment liberalisation and facilitation agenda by chairing APEC's Investment Experts

Group. This leading role continues to form a significant part of the Treasury's contribution to refining APEC's key policy themes and priorities;

- continuing the greater coordination of business law with New Zealand. During 2007-08, work continued on implementing the closer economic relations initiatives set out in the *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007*. The reduced filing requirements amendments commenced on 1 September 2007, furthering the mutual recognition of company registrations. The mutual recognition of securities offerings regime commenced on 13 June 2008 with the exchange of diplomatic notes and allows for the same securities offerings document to be issued in both countries;
- establishing the Standard Business Reporting program to reduce the business-to-government reporting burden by making it faster, cheaper and easier for business to report their financial information to government. Standard Business Reporting will use business software to automatically pre-fill government forms; adopt a common reporting language, based on international standards and best practice; make financial reporting to government a by-product of natural business processes; provide an electronic interface to enable business to report to government agencies directly from their accounting software (which will provide validation and confirm receipt of reports); and provide business with a single secure online sign-on to the agencies involved;
- continuing to provide advice relating to the currency system and maintaining successful operations of the Australian Government Actuary, the Takeovers Panel and the Financial Reporting Panel; and
- providing advice to the Government on the management of the HIIH Claims Scheme and its future operation. From July 2001, when it began operation, until the end of June 2008, the scheme paid \$595 million in assistance to settle 10,660 claims. By the end of June 2008, fewer than 260 claims remained to be finalised.

Table 6: Financial and staffing resources summary for Outcome 4

	Budget 2008 \$'000	Actual 2008 \$'000	Budget 2009 \$'000
Administered expenses			
Appropriation Acts No. 1 and 3	5,000	-	5,000
Appropriation Acts No. 2 and 4	177,108	173,957	7,120
Special Appropriations	-	-	-
Other expenses	-	(203)	-
Total administered expenses	182,108	173,754	12,120
Revenue from Government			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	5,506	5,686	5,592
Output 4.1.2 Financial system and corporate governance policy advice	35,383	23,584	38,198
Output 4.1.3 Competition and consumer policy advice	18,986	28,049	7,000
Output 4.1.4 Actuarial services	-	-	-
Total revenue from Government contributing to the price of departmental outputs	59,875	57,319	50,790
Revenue from other sources			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	84	188	90
Output 4.1.2 Financial system and corporate governance policy advice	2,011	1,350	1,471
Output 4.1.3 Competition and consumer policy advice	828	276	849
Output 4.1.4 Actuarial services	1,553	1,539	1,600
Total revenue from other sources	4,476	3,353	4,010
Total revenue for departmental outputs (Total revenues from Government and other sources)	64,351	60,672	54,800
Price of departmental outputs			
Output Group 4.1 Markets			
Output 4.1.1 Foreign investment and trade policy advice and administration	5,590	5,923	5,682
Output 4.1.2 Financial system and corporate governance policy advice	37,394	24,241	39,669
Output 4.1.3 Competition and consumer policy advice	19,814	23,016	7,849
Output 4.1.4 Actuarial services	1,553	1,504	1,600
Total price of departmental outputs	64,351	54,684	54,800
Total estimated resourcing for Outcome 4 (Total price of outputs and administered expenses)	246,459	228,438	66,920
Average staffing levels (number)	290	249	267

Note: The budget for departmental and administered expenses for 2008 and 2009 are from the Portfolio Budget Statements 2008-09

OUTPUT 4.1.1: FOREIGN INVESTMENT AND TRADE POLICY ADVICE AND ADMINISTRATION

During 2007-08, the Foreign Investment and Trade Policy Division was responsible for delivering Output 4.1.1: Foreign investment and trade policy advice and administration.

Markets Group provided advice on foreign investment proposals, providing executive support to the Foreign Investment Review Board and making decisions under the *Foreign Acquisitions and Takeovers Act 1975* and Australia's foreign investment policy under authorisations provided by the Treasurer, consistent with the policy. It also advised the Government on foreign investment and trade policy as it relates to Australia's participation in multilateral and bilateral agreements on investment. Further, Markets Group provided the Australian National Contact Point for the OECD Guidelines for Multinational Enterprises.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in fulfilling their responsibilities;
- government policy is represented appropriately and Australia's negotiating position is pursued effectively in international forums;
- Australia's commitments on investment in the US Free Trade Agreement are implemented;
- the OECD Guidelines for Multinational Enterprises are promoted, and the responsibilities of the national contact point for the guidelines are fulfilled;
- proposals are processed efficiently to meet the needs of ministers, the Foreign Investment Review Board, foreign investors and their agents;
- the Treasury effectively disseminates and explains the foreign investment policy to improve the standard of applications and compliance with policy requirements to reduce the proportion of foreign investment proposals requiring interim or final orders; and
- the Treasury undertakes a program of compliance checks on previous proposals subject to conditions, possibly leading to prosecutions, but aimed at an overall reduction in non-compliance with policy.

ANALYSIS OF PERFORMANCE

Advice on, and processing of, individual foreign investment proposals

Foreign investment proposals that fall within the scope of the Foreign Acquisitions and Takeovers Act or Australia's foreign investment policy are examined to determine whether they might be contrary to the national interest.

Where a foreign person enters into an agreement to acquire an interest in Australian urban land, they must notify the Treasurer under section 26A of the Foreign Acquisitions and Takeovers Act. In most real estate cases, applicants must comply with specified conditions. Where a foreign person proposes to acquire a substantial interest² in an Australian corporation valued above \$100 million,³ they must notify the Treasurer. During 2007-08, separate thresholds were introduced for offshore takeovers where the Australian subsidiary/asset represented less than 50 per cent of the global assets. The Treasurer must be notified of proposals to establish a new business valued at over \$10 million, and proposals involving direct investments by foreign governments and their agencies, regardless of size.

Under the Treasurer's authorisation, senior Treasury officers make decisions on less complex proposals that do not involve issues of high sensitivity. Around 94 per cent of proposals are decided under such authorisation.

The Treasury considered around 8,500 proposals in 2007-08, around 20 per cent more than in 2006-07. Over 94 per cent of proposals were decided within 30 days. Treasury also received around 37,000 telephone calls and 5,000 items of written and email correspondence during the year. In examining large or otherwise significant proposals, the Treasury consults with Commonwealth and State government departments and authorities, with responsibilities relevant to the proposed activity, to assist in assessing the implications of proposals.

During 2007-08, the Foreign Investment Review Board (an independent body established in 1976 to advise the Treasurer on foreign investment matters) provided advice to the Treasurer on major proposals and oversaw the division's investment screening function. The General Manager of Foreign Investment and Trade Policy Division is the Executive Member of the Foreign Investment Review Board.

Additional information on Australia's foreign investment screening arrangements, including statistics on foreign investment, is in the Foreign Investment Review Board's annual report. The report and other information is available at www.firb.gov.au.

2 A substantial interest is defined as an interest of 15 per cent or more for an individual foreign person, or an interest of 40 per cent or more for two or more foreign persons, and their associates.

3 Under the Australia-United States Free Trade Agreement, higher thresholds apply for US investors. From 1 January 2007, the threshold is \$913 million except for acquisitions involving a US government entity or in prescribed sensitive sectors.

Representation in international forums

The Treasury provides policy input on international investment issues in multilateral forums such as the WTO and the OECD, in regional forums such as APEC, and bilaterally through free trade agreements, Investment Protection and Promotion Agreements and other bilateral partnerships. The Treasury is involved in negotiating investment and financial services related provisions in free trade agreements.

Free trade agreements/closer economic cooperation

Concluded negotiations

In 2007-08, the Australian Government concluded free trade agreement negotiations with Chile. The agreement is expected to enter into force on 1 January 2009 following ratification in each country.

Continuing negotiations

The Treasury continued its involvement in Australia's ongoing free trade agreement negotiations with Japan, China, ASEAN and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates). The Treasury participated in these negotiations together with the Department of Foreign Affairs and Trade and a range of other Australian Government agencies.

The Treasury contributed to feasibility studies relating to possible free trade agreements with India, Korea and Indonesia. It was also the lead agency in investment protocol negotiations between Australia and New Zealand.

Other processes

The Treasury was involved in the Joint Experts Group, led by the Department of Foreign Affairs and Trade, which is investigating ways to strengthen economic links between Australia and Mexico, including the possible negotiation of a bilateral free trade agreement.

OECD

Australia is represented at OECD Investment Committee meetings by the General Manager of the Foreign Investment and Trade Policy Division. The Investment Committee enhances the contribution of international investment to growth and sustainable development worldwide, by advancing investment policy reform and international cooperation.

The Investment Committee also oversees the operation of the OECD Guidelines, a voluntary code providing recommendations for responsible business conduct in labour relations, human rights, the environment, bribery, tax and consumer welfare. As a member of the OECD, the Australian Government has committed to promote and implement the guidelines. This responsibility rests with the Treasury and is performed by the Australian National Contact Point, the General Manager of the Foreign Investment and Trade Policy Division.

Part 2: Report on performance

In 2007-08, the Australian National Contact Point received a submission regarding an Australian company's involvement in a mining operation in South America. The Australian National Contact Point has accepted this submission and is examining it as a specific instance in line with the procedural guidelines established by the OECD. A mediation process is underway.

The Australian National Contact Point also continued its promotional program for the guidelines, including participating in a number of business and non-government organisation forums. Further information is available at www.ausncp.gov.au.

APEC

Since becoming convenor of the Investment Experts Group in early 2005, the Treasury has undertaken a more active and strategic role in APEC's investment liberalisation and facilitation agenda. This leading role continues to form a significant part of Treasury's contribution to developing key policy themes and priorities for APEC, which Australia hosted in 2007. In June 2008, APEC adopted an Investment Facilitation Action Plan that Treasury developed in consultation with all of APEC's members. This is expected to contribute substantially to regional economic integration, a key APEC priority, by driving a more coherent, comprehensive approach to investment policy reform.

Liaison with Department of Foreign Affairs and Trade

In addition to participating in negotiations, the Treasury provides specialised advice to the Department of Foreign Affairs and Trade on Australia's involvement in the WTO Doha round of negotiations on the General Agreement on Trade in Services.

OUTPUT 4.1.2: FINANCIAL SYSTEM AND CORPORATE GOVERNANCE POLICY ADVICE

During 2007-08, the Financial System Division and Corporations and Financial Services Division in Markets Group, with the Takeovers Panel and Financial Reporting Panel, were responsible for the delivery of Output 4.1.2: Financial system and corporate governance policy advice.

Markets Group provided advice on the prudential framework, market access and pricing, market integrity and investor protection, company law and corporate governance issues, corporate insolvency, corporate financial reporting, the responsible portfolio agencies, and currency.

Markets Group also administered the companies regulation payments to the States and the Northern Territory, and progressed implementation of the Standard Business Reporting program.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in administering their responsibilities and implementing government decisions as they relate to financial system and markets issues;
- relevant information is presented effectively to adequately inform public debate;
- statutory and other procedural requirements are met;
- secretariat and executive services provided to advisory and external bodies are effective;
- representation and/or liaison by Treasury officers with other agencies, private sector organisations and international bodies, is effective; and
- ministerial correspondence is handled satisfactorily.

The key performance indicators for administered items are:

- amounts payable, according to agreed formulas, are accurately calculated; and
- payments are made according to agreed schedules.

ANALYSIS OF PERFORMANCE

The Treasury provided advice and program support to Treasury portfolio ministers, and engaged with other agencies on issues relating to financial institutions, financial markets and issues concerning corporate disclosure, governance and insolvency. The Treasury also processed related ministerial correspondence, published relevant information and met other procedural requirements. It provided effective support services to advisory bodies, liaised and consulted with stakeholders, and represented the Australian Government at various meetings.

Financial system reform

International financial market turbulence

In 2007-08, the Treasury monitored developments in international capital markets arising from the deterioration in the US sub-prime lending market and actively participated in global and domestic efforts to address these developments.

The Treasury contributed to the work of international forums such as the G-20, IMF and Financial Stability Forum in developing policy responses to the market turbulence. It also provided advice to the Government to support its participation in these forums.

Domestically, the Treasury progressed initiatives to address regulatory concerns emerging from the turbulence. These include examining the role and regulation of credit rating agencies; improving the transparency of credit instruments; and improving coordination between regulatory agencies, both domestically and internationally.

Financial sector crisis management

The Treasury provided advice to the Government on Australia's financial sector crisis management arrangements, including a proposal for a Financial Claims Scheme which would bring forward payments to bank depositors and insurance policyholders in the event that a financial institution fails. The Government announced these measures on 2 June 2008, as part of a broader response to the financial market turbulence.

The Treasury participated in the continuing work of the Council of Financial Regulators and liaised with other government agencies on the proposed crisis management arrangements. It also monitored international developments, including the financial institution failures in the United States and United Kingdom, to ensure the proposal reflected lessons learned from financial sector crises in overseas jurisdictions.

Implementation of Basel II Capital Framework in Australia

The Treasury provided advice to the Government on implementing the prudential standards under the Basel II Capital Framework developed by APRA for authorised deposit-taking institutions.

The new standards, which came into effect on 1 January 2008, contribute to enhanced depositor protection and systemic stability by requiring more accurate identification and pricing of risk, expanded board level involvement in risk management, and improved data collection.

Promoting competition: Account Switching Package

The Treasurer announced an Account Switching Package on 9 February 2008 to promote competition in the financial sector by making it easier for consumers to switch financial products and providers. The package includes:

- comprehensive consumer education resources on switching, including a detailed and informative website (at www.understandingmoney.gov.au);
- a requirement that financial institutions assist customers seeking to switch providers of transaction accounts, to be fully implemented by 1 November 2008;
- a consumer complaints hotline (1300 300 630) provided by ASIC as the first contact point for all consumer complaints about basic banking products; and
- a review by ASIC of entry and exit fees that apply to mortgage accounts.

The Treasury developed the package and continues to work with industry, the RBA and ASIC to monitor and facilitate its implementation.

Trustee corporations

COAG agreed, at its meeting of 26 March 2008, that the Commonwealth would assume responsibility for regulating trustee corporations. Commonwealth licensing and supervision of trustee corporations will reduce the regulatory burden on business and enhance the effectiveness of supervision by involving an experienced Commonwealth financial sector regulator. Commonwealth regulation will also create a more competitive national market by removing the need for multiple State and Territory licences. The Treasury is working to develop and implement an appropriate regulatory framework and has consulted with stakeholders, including industry and consumer groups.

Reducing regulatory burdens on business

The Treasury assisted the former government implement measures resulting from, and consistent with, the recommendations of the Taskforce on Reducing Regulatory Burdens, announced on 15 August 2006.

The Financial Sector Legislation Amendment (Simplifying Regulation and Review) Bill 2007 received Royal Assent on 24 September 2007. The Bill included measures to streamline breach reporting to ASIC and APRA, and provide greater regulatory flexibility for APRA through the provision of exemption powers, and the ability to accept enforceable undertakings and greater discretion under prudential standards.

The Financial Sector Legislation Amendment (Review of Prudential Decisions) Bill 2008 received Royal Assent on 26 May 2008. The Bill introduced a court-based disqualification process for individuals under legislation administered by APRA, streamlined APRA's powers to issue directions to regulated entities, removed the need for ministerial consent for certain decisions and expanded the availability of merits review.

Discretionary mutual funds and direct offshore foreign insurers

The Financial Sector Legislation Amendment (Discretionary Mutual Funds and Direct Offshore Foreign Insurers) Bill 2007 received Royal Assent on 24 September 2007 and its core provisions commenced on 1 July 2008. This Bill included measures to enhance Australia's general insurance prudential regime by requiring all direct offshore foreign insurers operating in Australia to be authorised.

The Bill also provided for limited exemption arrangements, which balance protection for Australian businesses and consumers with the acknowledged need that some insurance business cannot be placed in Australia. The Treasury released a discussion paper on the exemption arrangements and consulted broadly on their design. Regulations implementing the exemption arrangements commenced on 1 July 2008. The Treasury continues to consult on the design of data collection measures to complement the regulation of discretionary mutual funds and direct offshore foreign insurers.

Professional indemnity insurance

In 2007-08, the Government prescribed professional standards schemes for a further seven occupational associations. These schemes limit occupational liability for eligible members, in return for improved risk management practices and compulsory insurance cover. Commonwealth prescription helps prevent plaintiffs from undermining State and Territory professional standards schemes by using Commonwealth legislation as an alternative avenue for legal action.

The further seven occupational associations are the Law Society of NSW; Investigative and Remedial Engineers; the Australian Valuers' Institute (NSW); the Professional Surveyors Occupational Association; the Victorian Bar; the Institute of Chartered Accountants in Australia; and CPA Australia.

HIH Claims Support Scheme

The Treasury provided advice to the Government on the management of the HIH Claims Support Scheme and its future operation. The Treasury also continued to work closely with the HIH administrators, McGrathNicol+Partners, and the contracted claims manager, Gallagher Bassett Services Pty Ltd, to settle remaining claims as quickly as possible. From July 2001, when it began operation, until the end of June 2008, the scheme paid \$595 million in assistance to settle 10,660 claims. At the end of June 2008, fewer than 260 claims remained to be finalised.

Financial sector trends and structures

The Treasury has continued to advise Government on emerging market trends and structures by assessing market developments and new products, monitoring trends affecting competition and efficiency in the financial sector, and considering potential developments which may affect the effectiveness of existing policy settings. In addition, the Treasury has advised the Government on developments on banking fees and charges, as well as the operation, structure and cost of the superannuation system.

Commonwealth regulation of credit

Following the 3 July 2008 COAG announcement that the Commonwealth will adopt regulatory responsibility for credit, work has been underway to develop the approach and plan for transfer of the regulatory responsibility.

The Treasury continues to lead development of the reform, closely consulting with State and Territory representatives under the auspices of the Financial Services and Credit Reform Implementation Taskforce. The proposed plan is scheduled to be tabled at COAG's 2 October 2008 meeting.

Financial services developments

Financial services centre

The Treasury undertook preparatory work to implement the Government's plan to develop Australia as a financial services centre. Complementary changes to withholding tax rates will boost Australia's ability to compete globally. The Treasury assisted the Government to co-host a Financial Services Hub Summit in Sydney on 31 July 2008 to provide participants with an opportunity to identify issues to strengthen the competitiveness of the financial services sector and develop priority activities, for both government and industry, to better position Australia as a leading financial services centre.

Trade in financial services

The Treasury provided financial services-related support to Australia's negotiations in the WTO Doha Round and in free trade agreements with China, Chile, the Gulf Cooperation Council, Japan and, in partnership with New Zealand, ASEAN. The key services interests Australia is pursuing include improved access to international financial markets and financial market integration.

Financial services regulatory refinements

The *Corporations Regulations 2001* were amended in September 2007 to simplify the corporate and financial services regulatory system by improving the effectiveness of the disclosure regime, reducing the costs associated with meeting the disclosure requirements and clarifying the operation of provisions relating to the regulation of financial services.

Review of product rationalisation

The Treasury is working with a range of industry representative groups, ASIC and APRA to develop an approach to merging or consolidating managed investment products of a similar nature into more modern investment products in a manner that ensures no disadvantage to any consumer. The process aims to remove economically inefficient products by providing customers with the opportunity to roll over their investments into other, more efficient products.

International liaison

APEC Finance Ministers' Process

The Treasury led policy initiatives in the APEC Finance Ministers' Process, including the establishment of the Regional Network on Asian Insolvency Reform and the Financial Sector Reform Catalogue of Policy Experience and Choices.

International Financial Reporting Standards Regional Policy Forum

Following the success of the International Financial Reporting Standards Regional Policy Forum held in Japan in 2007, the Treasury has worked with regional partners to identify a host for the next forum. This forum is expected to be held in China in early 2009.

Coordination of business law with New Zealand

Work continued towards delivering the work program agreed under the Memorandum of Understanding on coordination of business law between Australia and New Zealand. The business law coordination program covered areas where the two jurisdictions seek to achieve comparable outcomes and lower the regulatory barriers to bilateral integration. The work program delivered key achievements in the areas set out below.

The *Corporations (NZ Closer Economic Relations) and Other Legislation Amendment Act 2007*, which received Royal Assent on 21 June 2007, supports the greater coordination of business law. The Act provides a framework for the mutual recognition of securities offerings and reducing the filing requirements for New Zealand companies operating in Australia. During 2007-08, work continued on implementing these closer economic relations initiatives. The reduced filing requirements amendments commenced on 1 September 2007, furthering the mutual recognition of company registrations. The mutual recognition of securities offerings regime commenced on 13 June 2008 with the exchange of diplomatic notes, and allows for the same securities offerings document to be issued in both countries. The regime removes barriers to trans-Tasman securities offerings, facilitates investment between Australia and New Zealand, reduces costs for business and increases choice for investors.

The Treasury participated in the Trans-Tasman Accounting and Auditing Standards Advisory Group with representatives from the accounting and auditing standard setters in Australia and New Zealand, professional accounting bodies and officials from the New Zealand Ministry of Economic Development. The group is progressing a number of projects to ensure both countries' financial reporting frameworks do not impede trans-Tasman business activity, including close cooperation on common policy issues and the mutual recognition of company auditors in each jurisdiction. The group is also playing a leadership role in promoting International Financial Reporting Standards in the region, including progressing arrangements for future regional policy forums. The Treasury currently chairs the group.

On 26 February 2008, the Minister for Superannuation and Corporate Law announced that the Australian Government intends to amend the *Corporations Act 2001* to ensure people disqualified from managing companies in New Zealand will be also disqualified in Australia. Draft legislation is being developed.

Trans-Tasman Council on Banking Supervision

The Trans-Tasman Council on Banking Supervision reports to the Treasurer and New Zealand Minister of Finance on promoting a joint approach to deliver a seamless regulatory environment for banking services. The Secretaries to the Treasuries of Australia

and New Zealand jointly chair the council and its membership comprises senior officials from APRA, and the Reserve Banks of New Zealand and Australia.

The Treasury has pursued the council's work program, looking at improved cooperation on crisis management, promoting the provision of seamless banking services for customers and sharing experiences on improving the quality of insurance regulation.

OECD steering group on corporate governance

The Treasury provided the Australian representative to the OECD steering group on corporate governance. The work of the steering group included examining the role of activist hedge funds in corporate governance; takeover arrangements; cooperation between shareholders acting in concert; and the governance of sovereign wealth funds. The Treasury also provided the Australian representative to the Asian corporate governance roundtable.

Takeovers Panel

The Takeovers Panel contributed to well functioning securities markets in Australia by receiving 40 applications, based on the Takeovers Chapter of the *Corporations Act 2001*. The panel, a peer review body with regulatory functions, helps ensure that acquisition of control over voting shares in listed and widely held companies occurs in an efficient, competitive and informed market; security holders and directors are given enough information; and security holders have a reasonable and equal opportunity to participate in any benefits of a proposal. Panel members are 52 specialists in mergers and acquisitions, either as investment bankers, lawyers, company directors or other professionals.

The panel also publishes guidance notes to help foster market confidence and efficiency. In 2007-08, the panel released two new guidance notes and updated seven existing guidance notes.

The High Court considered the legislation under which the panel operates and on 31 January 2008, in *Attorney-General of the Commonwealth of Australia v Alinta Limited & Ors* [2008] HCA 2, the court decided unanimously that section 657A(2)(b), as it then was, was not invalid in conferring the Commonwealth's judicial power on the panel. Since the 13 March 2007 amendments, s657A(2)(b) has been amended and become s657A(2)(c) of the Corporations Act. The Federal Court review of the panel's decision in *Rinker in Cemex Australia Pty Ltd v McKeon and others* is pending.

Financial Reporting Panel

During the year, the Financial Reporting Panel considered its first case after ASIC formally referred a matter to it. The matter was successfully resolved before the panel was required to issue a determination, consistent with the panel's policy of assisting in the timely resolution of financial reporting disputes.

Part 2: Report on performance

The panel also continued to liaise with key stakeholders. It met with ASIC to discuss the implications for financial reporting surveillance of the financial market volatility experienced during the year and met with industry stakeholders to assist in further promoting market awareness of its work.

Standard Business Reporting

Standard Business Reporting is a multi-agency initiative to reduce the business-to-government reporting burden. Led by the Treasury, participating agencies include the ABS, APRA, ASIC, ATO and all State and Territory government revenue offices.

Standard Business Reporting is being co-designed by Australian, State and Territory Government agencies in partnership with business, software developers, accountants, bookkeepers and other business intermediaries across Australia. It aims to simplify financial reporting to government, and make it a natural by-product of accounting and financial software. Australian business are expected to save around \$800 million a year when the initiative is fully operational.

Standard Business Reporting has established ongoing communication and collaboration with the Netherlands, the US, the United Kingdom, the European Union and New Zealand, recognising the need to ensure its business-to-government reporting definitions are consistent with other countries.

Governments across Australia have endorsed Standard Business Reporting. It forms part of COAG's broader agenda for deregulation, under the oversight of the Business Regulation and Competition Working Group chaired by the Minister for Finance and Deregulation and the Minister for Small Business.

Contracts have been signed with IBM Australia Limited to deliver a design for the core infrastructure, and Verizon Business to develop a design for the single secure online sign-on for business to participating agencies.

The program released two versions of its reporting definitions (taxonomy) over the year. These successfully engaged stakeholders and elicited feedback.

Standard Business Reporting will deliver a pilot allowing businesses to create tax file number declarations in their accounting system and send them to the ATO. This is on target for delivery in January 2009. Standard Business Reporting's main delivery for the bulk of financial reporting to government is scheduled for mid 2010.

Currency

The Treasury provided advice to Treasury portfolio ministers on a range of currency related matters. It chaired the Royal Australian Mint Advisory Board to assist the Royal Australian Mint develop its policy and administer its initiatives. The Treasury also assisted

the Perth Mint finalise its currency determinations (legislative instruments) which are tabled in Parliament before the release of any new set of numismatic coins.

Financial reporting framework

Improving the financial reporting framework

In early 2008, the Government announced a review of Australia's financial reporting framework. This announcement was made in the context that Australia's financial reporting framework is robust and generally consistent with international best practice.

The review will examine reforms to further improve the relevance of financial reports to investors and the broader community, reduce complexity and target opportunities to remove unnecessary compliance burdens on Australian companies.

Implementation of accounting and auditing standards

For financial periods commencing on or after 1 January 2005, financial reports prepared for the purposes of the corporations legislation have been prepared in accordance with International Financial Reporting Standards. Audits of financial reports for reporting periods commencing on or after 1 July 2006 have also been conducted using auditing standards made by the AUASB which have the force of law.

During the year, the Treasury and the Financial Reporting Council continued to monitor International Financial Reporting Standards in Australia and the implementation of the auditing standards. More than 100 countries now require, or permit, the use of International Financial Reporting Standards for financial reporting purposes. In addition, the US Securities and Exchange Commission recently announced that non-US companies reporting under International Financial Reporting Standards will not need to reconcile their financial statements to US generally accepted accounting principles; this will benefit Australian companies providing financial information to US regulators.

The Treasury also monitored the standards setting work of the International Accounting Standards Board and the International Auditing and Assurance Standards Board to assess the likely impact of that work on Australia's corporate regulatory framework. The Treasury has engaged with the International Accounting Standards Board on emerging issues, including on emissions trading schemes.

Auditor independence

During the year, the Treasury continued to monitor the operation of the Australian auditor independence framework. This work built on an earlier comprehensive analysis of Australia's auditor independence framework in comparison with requirements internationally which had found substantial underlying equivalence between the Australian auditor independence requirements and best practice standards adopted internationally. Particular areas of the framework reviewed included auditor rotation requirements and non-audit services. During the year, the Treasury also liaised closely with key stakeholders

including the Accounting Professional and Ethical Standards Board and the Financial Reporting Council.

Implementation of the Uhrig Review recommendations

The Treasury oversaw the implementation of new financial and governance frameworks for the AASB and the AUASB with the enactment of the *Governance Review Implementation (AASB and AUASB) Act 2008*. The Act also implemented consequential changes to the functions of the Financial Reporting Council. The new arrangements commenced from 1 July 2008.

Particular areas of the framework reviewed included auditor rotation requirements and non-audit services.

Company law and corporate governance

Corporate governance

The Treasury provided advice on corporate governance issues, particularly measures to enhance corporate governance. Areas included the regime for imposing personal liability upon directors for corporate fault; the system for imposing sanctions under the *Corporations Act 2001* and the *Australian Securities and Investments Act 2001*; and the scope of directors' duties and the defences available to directors in actions based on their breach. In late 2007, Treasury held roundtables with industry representatives for further stakeholder input, following submissions on its March 2007 paper.

In May 2008, the Treasury and the Australian Institute of Company Directors surveyed 600 directors of ASX 200 companies on the impact of the risk of personal liability on decision making and board service. The Treasury continues to hold consultative meetings with directors on the issues raised by the survey.

Corporate insolvency

On 13 February 2008, the Minister for Superannuation and Corporate Law introduced the *Cross-Border Insolvency Act 2008* into the Senate. The Act was passed and received Royal Assent on 26 May 2008. The Act implemented the Model Law on Cross-Border Insolvency adopted by the United Nations Commission on International Trade Law. It established access to local courts by people administering foreign insolvency proceedings; established conditions for the recognition of foreign insolvency proceedings and the granting of relief to participants; facilitates the participation by foreign creditors in such proceedings; enables cooperation between courts and practitioners from different countries; and enables the coordination of proceedings taking place concurrently in different countries.

The *Corporations Amendment (Insolvency) Act 2007*, introduced in the previous financial year, was passed on 9 August 2007 and received Royal Assent on 20 August 2007. The Act amended the *Australian Securities and Investments Commission Act 2001*, *Corporations Act 2001*

and *Superannuation Guarantee (Administration) Act 1992* in relation to protections for employee entitlements; improved information to creditors; statutory pooling processes to facilitate windings-up of related companies; enhanced powers to investigate registered liquidators; the removal of the penalty privilege in suspension and disqualification proceedings; the regulation of insolvency practitioners; and voluntary administration procedures.

Governance for small companies

On 19 September 2007, the previous Treasurer announced funding of \$100,000 for the Treasury to partner the National Institute for Governance at the University of Canberra to research best practice corporate governance arrangements for small corporations. The joint research project has a three-year time line.

Cross-border capital flows

The Treasury and ASIC released the joint consultation paper, *Cross-border Capital Flows: facilitating access to overseas markets and financial services*, on 16 June 2008. The paper seeks to lead to improvements in the existing framework for recognising and regulating foreign markets, advisers and foreign collective investment schemes permitted to operate in Australia. Importantly, the paper will shape the development of a comprehensive mutual recognition of securities regulation framework for Australia. Public submissions on the paper closed on 25 July 2008. The paper will contribute to enhanced investor protection and market integrity for cross-border capital flows involving Australians.

Mutual recognition of securities regulation with the United States of America

On 29 March 2008, the Prime Minister and the Chairman of the US Securities and Exchange Commission announced they had agreed to explore a mutual recognition arrangement covering markets and advisers. Since then, Australian and US officials have been negotiating a mutual recognition arrangement. If it is reached, it will be the first implemented under the US Securities and Exchange Commission's new mutual recognition policy, and will improve cross-border capital flows, open new markets for Australian advisers and increase regulatory coordination between ASIC and the US Securities and Exchange Commission.

China's qualified domestic institutional investor scheme

The Treasury worked with ASIC and the Department of Foreign Affairs and Trade to successfully secure Australia's status as an approved destination under China's qualified domestic institutional investor scheme. The Treasurer announced on 10 June 2008 that mainland Chinese entities regulated by the China Banking Regulatory Commission could invest in Australia. This will increase the opportunities for Australian funds managers to offer their services to Chinese entities wishing to invest in Australia.

Statutory and other procedural requirements

Financial sector levies

During 2008, the Treasury consulted with industry and provided advice to the Government on the determination of financial sector levies which primarily support APRA's operations.

Appointments

The Treasury processed appointments to a range of bodies, including the AUASB, APRA, the Australian Reinsurance Pool Corporation Board, ASIC, the Companies Auditors and Liquidators Disciplinary Board, the Financial Reporting Council, the Financial Sector Advisory Council, the Payments System Board, the Superannuation Complaints Tribunal and the Takeovers Panel.

Secretariat services

The Treasury provided secretariat services to the Ministerial Council for Corporations, which met once during 2007-08. The Treasury also assisted ministers to fulfill the Government's obligations under the Corporations Agreement 2002.

The Treasury provided secretariat support for the Financial Reporting Council, which met five times during 2007-08. This statutory body provides strategic oversight of the accounting and audit standard setting processes, including the AASB and AUASB, and monitors the effectiveness of Australia's auditor independence requirements.

The Treasury provided secretariat support to the Financial Sector Advisory Council, which brings together a range of senior financial market participants to provide advice to the Government on policies to facilitate the growth of a strong and competitive financial sector.

OUTPUT 4.1.3: COMPETITION AND CONSUMER POLICY ADVICE

During 2007-08, the Competition and Consumer Policy Division and the Financial Literacy Foundation were responsible for the delivery of Output 4.1.3: Competition and consumer policy advice.

Markets Group provided advice on policy issues and the legislative framework for the development and operation of competition and consumer policy, and markets more broadly, including the competition and consumer provisions of the *Trade Practices Act 1974*, and structural reform of key sectors, including those providing essential infrastructure.

PERFORMANCE INFORMATION

The key performance indicators are:

- advice meets Treasury portfolio ministers' needs in discharging their responsibilities under legislation and in implementing government decisions in relation to competition and consumer policy and national financial literacy issues;
- statutory and other procedural, administrative and reporting requirements are met;
- effective representation and/or liaison with other agencies, private sector organisations and international bodies promotes competitive, efficient and well informed markets;
- relevant information is presented effectively to inform consumers and businesses;
- secretariat services provided to advisory bodies are effective;
- ministerial correspondence is handled satisfactorily;
- effective clearinghouse and website services are established and maintained with information on financial and education services, superannuation and superannuation choice;
- a national financial literacy information program is undertaken and a website developed; and
- teachers are supported in delivering financial literacy education in schools through professional development, and financial literacy is included in teaching and training programs.

ANALYSIS OF PERFORMANCE

Competition policy

The Treasury contributed to key outputs in the Government's competition policy legislative reform program.

The Treasury appeared before the Senate Standing Committee on Economics considering legislation to amend sections of the Trade Practices Act on the misuse of market power, unconscionable conduct, predatory pricing and secondary boycott provisions.

The Treasury provided advice to the current Government on its election commitment to legislate to criminalise serious cartel conduct within 12 months of coming to office. On 11 January 2008, the Assistant Treasurer and Minister for Competition Policy and

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Consumer Affairs released the draft legislation and related documents for public comment.

The Treasury developed legislation to strengthen the prohibition against the misuse of market power in section 46 of the Trade Practices Act and address difficulties in establishing a successful predatory pricing case.

The Treasury coordinated the Government response to the ACCC report *Petrol Prices and Australian Consumers: report of the ACCC inquiry into the price of unleaded petrol*.

As part of the preliminary Government response, the Treasury assisted in preparing a directive from the Assistant Treasurer and Minister for Competition and Consumer Policy to the ACCC to monitor the prices, costs and profits on the supply of unleaded petroleum products in the petroleum industry.

The final Government response publicly released on 15 April 2008 announced a National Fuelwatch Scheme.

The Treasury prepared legislation to implement Fuelwatch and on 29 May 2008, the Government introduced into the House of Representatives, the National Fuelwatch (Empowering Consumers) Bill 2008 and the National Fuelwatch (Empowering Consumers) (Consequential Amendments) Bill 2008. The legislation passed the House of Representatives on 5 June 2008.

The Treasury led the activities of the COAG Business Regulation and Competition Working Group. The group is to progress reforms in 27 areas where duplicative and inconsistent regulation across jurisdictions imposes an unnecessary burden on business. The Treasury was closely involved in developing a new competition agenda, which includes reviews of Australia's anti-dumping arrangements and parallel restrictions on the importation of books, rationalisation of occupational licences, and further reforms to national transport policy and infrastructure access.

The Treasury coordinates and advises the Government on preparation of terms of reference for Productivity Commission research and inquiries. In 2007-08, this involved three public inquiries and seven commissioned research references.

The Government has established Infrastructure Australia, a statutory board to advise governments on the planning, coordination and efficient use of transport, energy, communications and water infrastructure that could materially improve national productivity. Infrastructure Australia will identify investment priorities and examine regulatory impediments to the use of infrastructure. The Treasury leads the activities of the COAG Infrastructure Working Group which supports Infrastructure Australia. The Secretary to the Treasury is a member of Infrastructure Australia.

The Treasury was actively engaged in the work of the Ministerial Council on Energy Standing Committee of Officials which provides advice on ongoing energy market reforms and the interaction between energy markets and the Government's carbon pollution reduction scheme.

The Treasury worked closely with the Department of Broadband, Communications and the Digital Economy, the ACCC and other central agencies to develop the Government's policy to regulate the telecommunications industry and provide advice on major telecommunications initiatives. The Treasury is also involved in developing measures for the transition to digital television and radio platforms.

The Treasury participated in the public hearings of the House of Representatives Standing Committee on Infrastructure, Transport, Regional Development and Local Government Inquiry into Coastal Shipping Policy and Regulation. The Committee will report in October 2008.

The Treasury has worked with relevant agencies to progress COAG reforms in the transport sector to improve market-based frameworks and promote greater competition. Changes to heavy vehicle road charges announced in February 2008 will improve pricing and efficiency in the sector. The Treasury has monitored the progress of AusLink land transport projects and sought to improve project planning, cost sharing and risk management arrangements with the States and Territories.

The Treasury has contributed to ongoing work on international air services agreements and proposals for liberalising international air routes including the treatment of competition law in air services agreements and access to Australian routes. The Treasury provides advice on the regulation of airports and the findings from ACCC monitoring of airport services. The Treasury is represented on an interdepartmental steering committee for the Government's review of national aviation policy.

The Treasury has been involved in competition policy-related aspects of free trade agreements, including with ASEAN, Chile, China, Japan and Malaysia.

A key outcome of the 2007 APEC Leaders' meeting in Sydney was agreement for an APEC structural reform ministers meeting in 2008 to address the region's structural reform. Structural reform can stimulate economic growth where it is needed and improve living standards in Australia and the Asia-Pacific.

In June 2008, the Treasury hosted a deputies' meeting on structural reform in preparation for the ministerial meeting. In consultation with member economies, two key policy themes developed were the political challenges of structural reform and regulatory reform frameworks to facilitate structural reform. The first APEC ministerial meeting wholly dedicated to structural reform took place in August 2008.

In addition, the Treasury participated in various APEC forums on structural reform issues, including:

- the APEC Senior Officials' Dialogue on Structural Reform;
- chair of an APEC Economic Committee Roundtable on Regulatory Reform;
- and

- chair of the Economic Committee Friends-of-the-Chair Group on Regulatory Reform.

Consumer policy

In 2007-08, the Treasury provided advice to the Government on the consumer policy framework to facilitate consumers' effective and positive engagement in the economy.

The Productivity Commission, at the Treasurer's request, undertook an inquiry into Australia's Consumer Policy Framework. The Treasury provided input into the Commission's final report, *Review of Australia's Consumer Policy Framework*, which was completed in April 2008.

The Treasury is leading a number of projects being progressed under COAG's consumer policy agenda. In March COAG agreed to progress:

- a model for the reform of product safety regulatory arrangements; and
- an enhanced national framework for consumer policy, drawing on the recommendations of the Commission's Review.

In May 2008, the Ministerial Council on Consumer Affairs recommended a model for product safety reform and in July 2008 COAG endorsed this model. The Treasury leads implementation of the product safety reforms.

The Treasury is also leading, through the Ministerial Council on Consumer Affairs and the Business Regulation and Competition Working Group, development of an enhanced national framework for consumer policy, in response to the Commission's recommendations.

The Treasury is also responsible for implementing the Australian Government's legislative program for consumer law. During 2008, the Government undertook public consultation to regulate use of component pricing by business advertising to consumers.

The Treasury represents Australia's interests in international forums on consumer policy. The Treasury is a member of the OECD Committee on Consumer Policy and during 2007-08, contributed to OECD projects which included agreeing to host a roundtable on product safety reform, assisting in the preparation of a toolkit for policy makers on consumer policy and contributing to a project led by New Zealand on industry-led regulation.

Financial Literacy Foundation

The Financial Literacy Foundation was established in June 2005 to give all Australians the opportunity to better manage their money. The foundation operated as a division of the Treasury between 2005 and 2008.

Financial literacy initiatives aim to build the capacity of Australians to better understand and manage financial risk and take advantage of increased competition and choice in Australia's finance sector. In 2007-08, the foundation:

- delivered the *Understanding Money* media campaign (August-September 2007), and provided consumers with reliable, trusted and independent information on financial literacy issues through the *Understanding Money* website and handbook;
- published *Financial Literacy — Australians understanding money*, surveying 7,500 Australians aged 12-75, to better understand how Australians think about and manage money;
- published *Financial Literacy — Women understanding money*, about women's attitudes and behaviour relating to a range of money topics from budgeting and saving to getting ready for retirement;
- developed the *Women Understanding Money* resource with the Office for Women and Security4Women, which consists of 14 information sheets for women on topics from budgeting to investing and making the most of superannuation;
- developed *Financial Literacy Resources Australia*, a database of financial literacy programs and resources available in Australia, which is available on the *Understanding Money* website;
- worked with all government, Catholic and independent school sectors to develop and implement a national professional learning strategy to ensure that primary and secondary teachers have access to professional learning to support them in teaching consumer and financial literacy across the curriculum; and
- convened a national Workplace Working Party that included stakeholders from peak bodies representing small business. The working party is developing additional resources to support small business implement financial literacy.

The functions of the Financial Literacy Foundation transferred to ASIC from 1 July 2008. This will strengthen ASIC's role in safeguarding Australia's economic reputation and wellbeing, and help to ensure that Australia's financial markets are fair, transparent and supported by more informed investors and consumers.

Secretariat services

The Treasury continued to provide secretariat support to the Ministerial Council on Consumer Affairs, and to the Commonwealth Consumer Affairs Advisory Council.

OUTPUT 4.1.4: ACTUARIAL SERVICES

During 2007-08, the Australian Government Actuary was responsible for delivery of Output 4.1.4: Actuarial services.

The Australian Government Actuary provides, on a fee-for-service basis, accurate and timely actuarial and related advice to the Government, its departments and agencies.

PERFORMANCE INFORMATION

The key performance indicator is the efficient provision of high quality professional services, with income from consultancy fees relative to total costs meeting specified quantitative criteria.

ANALYSIS OF PERFORMANCE

The Australian Government Actuary operates in a competitive and contestable market for actuarial services. Income from consultancy services relative to total costs is, therefore, a primary indicator of performance. The Australian Government Actuary operates a special account to ensure its financial operations are managed properly and transparently. At 30 June 2008, the account was in a sound financial position.

Feedback from clients has generally been positive, consistent with an ongoing demand for services.

Consultancy services

Australian Government Actuary consultancy services typically involve analysing uncertain future financial flows using financial modeling techniques, documenting the analysis and presenting the results to clients.

Departments which sought advice included Defence; Attorney-General's; Education, Employment and Workplace Relations; Families, Housing, Community Services and Indigenous Affairs; Health and Ageing; and Veterans' Affairs. Centrelink, Medicare Australia and the ATO also sought advice.

Feedback from these agencies indicates that they were generally satisfied with the advice received and its value as an input in achieving their objectives.

Services to the Treasury

The Australian Government Actuary contributed its technical expertise on a range of policy issues, including the superannuation system and insurance matters.

The Treasury funded this work which accounted for around 15 per cent of the office's total revenue for the year.

Operational outcomes

The office operates under the direction of an internal advisory board comprising three senior Treasury officers, including the Australian Government Actuary. The board reviews financial performance and oversees the strategic direction of the office.

EXECUTIVE AND PARLIAMENTARY DIVISION

Executive and Parliamentary Division's mission is to promote high quality and timely services to ministers and the efficient and effective functioning of the Treasury by providing strategic support, systems and advice to the Secretary, Executive Board, Treasury groups and Treasury ministers.

Executive and Parliamentary Division is responsible for providing advice and general secretariat services to the Secretary, Executive Board and Audit Committee; developing assurance and risk management frameworks; monitoring and managing issues; proofreading; coordinating freedom of information requests; undertaking corporate planning and performance monitoring; coordinating implementation advice and monitoring; and providing policy evaluation guidance and services. The division also provides systems and services that support cabinet and parliamentary liaison, ministerial correspondence and briefing.

KEY PRIORITIES IN 2007-08

The key priorities in 2007-08 were to:

- ensure delivery of appropriate services to Treasury portfolio ministers;
- monitor and manage issues, in partnership with relevant policy areas in groups;
- ensure the effectiveness, efficiency and conformity to legislative and accountability requirements of Treasury activities, systems and processes; and
- establish a policy implementation monitoring and advising capability.

KEY OUTCOMES IN 2007-08

The key outcomes achieved were:

- coordination of liaison, briefing and correspondence for the Treasury and its stakeholders;
- provision of issues management services and support across the Treasury;
- enhanced support for the audit committee;
- improved risk management and quality assurance capabilities;
- further improvement of reporting, support services and systems for advice sent to ministers; and
- establishment of a policy implementation monitoring and advising function.

CORPORATE SERVICES GROUP

Corporate Services Group's mission is to provide efficient and effective corporate services, products and advice to the Treasury, Treasury ministers and other clients to enable them to meet their objectives.

Corporate Services Group is responsible for the provision of corporate services, products and advice, including accommodation and facilities management; financial management; human resource management, training and development; information management and technology services; procurement; publishing; security and travel.

The three divisions in the group are Financial and Facilities Management, Human Resources and Information Management and Technology Services.

The work of the group in 2007-08 was directed towards three focus areas:

- improving consultation and managing change;
- reducing red tape;
- promoting environmentally friendly initiatives.

KEY PRIORITIES IN 2007-08

Key priorities in 2007-08 were to:

- ensure the ongoing financial sustainability of the Treasury;
- deliver efficient and effective information technology operations;
- ensure workforce and staff wellbeing strategies meet organisational needs;
- ensure timely and accurate financial, budgeting and compliance reporting;
- develop and implement strategies to address key issues identified in the staff survey;
- improve document management practices in the Treasury;
- deliver priority elements of the Information and Knowledge Management Strategic Plan 2007-09;
- improve human resource business systems and organisational reporting;
- improve the Treasury's procurement activities and processes;
- implement outcomes of the review of the performance management system; and

- obtain agreement on medium to long-term accommodation plans for the Treasury.

KEY OUTCOMES IN 2007-08

The following were key outcomes in 2007-08.

- The 2006-07 Financial Statements were completed and audited with no major issues raised.
- A review of Information Technology (IT) operations capability identified opportunities for process improvement; this led to the commencement of a project to improve IT service management.
- Action taken to address key issues identified in the 2007 staff survey included staff seminars with members of the Executive Board, improved information for staff on available support programs and exploration of strategies to improve workflow processes, internal communication and work-life balance of staff.
- Key professional development activities included the Executive Leadership Program to develop leadership and strategic thinking skills, a comprehensive training program to develop skills identified in performance appraisal discussions, an extensive series of Treasury seminars and tender selection processes to progress a suite of post graduate economics training.
- A review of the Performance Management System was conducted in 2007 in collaboration with staff, managers and the Workplace Relations Committee and confirmed support for the system. The key change from the review is the adoption of a new naming convention using descriptors for ratings against individual criteria and overall ratings. The changes took effect from August 2008 and followed comprehensive staff training.
- Environmental Chief Executive Instructions were approved during the year to provide guidance to Treasury staff to improve the sustainability of the Treasury's operations.
- A new data centre for the Treasury was substantially completed. The centre will use environmentally sustainable cooling technologies to reduce power costs.
- Improvements to document management centred around release of a revised email policy, scenario based training to improve Outlook productivity and the annual Treasury Record Keeping Forum.
- The Information and Knowledge Management Advisory Board implemented a governance plan and framework for the program, including establishment of

project boards and appointment of business change agents for each group. A communication strategy for the program was implemented.

- Priority elements of the Information and Knowledge Management Strategic Plan completed in 2007-08 include a workflow solution to enable automation of the production of the Tax Expenditures Statement, establishment of a collaboration pilot to support the Climate Change Modeling Unit, and a review of the Treasury intranet.
- Significant improvements to the Treasury's procurement processes were made during the year through the procurement improvement project. An IT Business Services Panel was established to improve the efficiency of sourcing and procuring specialist skills.

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CORPORATE GOVERNANCE

The Treasury's corporate governance practices comply with statutory and other external requirements, and aim to achieve sound administrative and financial management practice. They are designed to ensure efficient, effective and ethical use of the Treasury's resources.

As part of its ongoing focus on effective governance arrangements, the Treasury periodically considers a range of issues, including:

- clear accountability mechanisms;
- its leadership, culture and communication;
- appropriate governance and committee structures;
- the effectiveness of its work with its stakeholders;
- comprehensive risk management, compliance and assurance systems; and
- strategic planning, performance monitoring and evaluation.

The Executive Board is the Treasury's primary decision-making body. The Audit Committee assists the Executive Board by independently reviewing and considering the department's operations, competence and integrity of its accounts.

The Treasury's management model sets out the role accountabilities of the five levels of the management structure. The Treasury's management levels and primary role accountabilities are:

- the Secretary: accountable for the Treasury's management and strategic leadership;
- executive director: accountable for a group's management and strategic leadership;
- general manager: accountable for a division's management and strategic leadership;
- manager: accountable for a unit's management and leadership; and
- adviser and analyst: accountable for providing technical expertise and team leadership and contributing to unit outputs.

SENIOR MANAGEMENT COMMITTEES AND THEIR ROLES

Executive Board

The Treasury's Executive Board comprises the Secretary, the Executive Directors and the Group General Manager of Corporate Services Group. The Executive Board is responsible for high-level policy issues relating to the Treasury's strategic leadership and management, including:

- organisational development — shaping the Treasury's future;
- policy development and coordination — involving major and/or new economic policy issues, generally with implications that involve more than one group;
- corporate governance — ensuring the efficient, effective and ethical use of resources; and
- planning and allocation of resources — meeting current and future work priorities.

The Executive Board members as at 30 June 2008 were:

- Dr Ken Henry, Secretary;
- Dr David Gruen, Executive Director, Macroeconomic Group;
- Mr Chris Legg, Executive Director, Macroeconomic Group (acting);
- Mr Jim Murphy, Executive Director, Markets Group;
- Mr Nigel Ray, Executive Director, Fiscal Group;
- Mr Paul McCullough, Executive Director, Revenue Group (acting);
- Ms Deidre Gerathy, Group General Manager, Corporate Services Group.

The Executive Board is supported by the Executive and Parliamentary Division. Mr Frank Di Giorgio, General Manager, Executive and Parliamentary Division, is secretary to the Executive Board.

Audit Committee

The Audit Committee functions as a forum of review of audit issues by:

- supporting and enhancing the control framework;
- providing assurance on published financial information;
- monitoring, reviewing and reporting on compliance; and

- assisting the Chief Executive to comply with all legislative and other obligations.

The Treasury's Audit Committee follows the recommended best practice guidelines issued by the Australian National Audit Office (ANAO). The ANAO also attends the Treasury's Audit Committee meetings as an observer. The Audit Committee reviews internal and external audits relating to the Treasury.

Audit committee members as at 30 June 2008, were Mr David Parker (Chair), Mr David Martine, Mr Geoff Miller, Ms Deidre Gerathy, Mr Mark O'Connor, Mr Rob Donnelly and Mr Bruce Jones (the external representative). The committee met six times during 2007-08.

Remuneration committees

Remuneration committees are established within the Executive, Corporate Services Group and the four policy groups in the Treasury to recommend to the Secretary the determination of salary rates available under individual arrangements for APS6, EL1 and EL2 employees.

The Executive Board determines each remuneration committee's membership and the Executive Director of the relevant group chairs each remuneration committee. The committee comprises the Chair, the General Manager Human Resources Division and all general managers within the group. One general manager from another group is included to promote consistency of outcomes between groups.

SENIOR MANAGEMENT STRUCTURE

Details of the Treasury's management structure are set out in Part 1, Figure 1 on page 15.

CORPORATE PLANNING AND REPORTING

The Treasury's corporate planning and reporting framework is an integrated system linked to the Treasury's financial management, human resource and business management systems.

The Executive Board sets the broad strategic direction for the Treasury through its identity statement, *The Treasury — Who We are and What We Do*, and its annual corporate plan. The identity statement sets out the Treasury's mission, values, role, and key policy responsibilities, whilst the corporate plan articulates future directions, key priorities, capabilities, risks and key risk management strategies. The corporate plan provides context for group and divisional plans.

The Treasury meets its external reporting responsibilities through its portfolio budget statements and annual report.

RISK MANAGEMENT

The Treasury is committed to a comprehensive, coordinated and systematic approach to risk management. That approach is directed towards supporting managers to anticipate uncertain events, exploit opportunities and respond appropriately to potential weaknesses.

The approach has five key components.

- The Corporate Policy and Framework for Managing Risk and associated guidelines, released in April 2006 is consistent with the Australian/New Zealand Standard for Risk Management (AS/NZS 4360:2004), and aims to:
 - integrate and formalise existing risk management processes across the Treasury;
 - ensure appropriate identification, analysis and evaluation of relevant risks;
 - continue monitoring risk and considering treatment strategies; and
 - establish a risk communication strategy and training framework for stakeholders.
- The Fraud Control Plan complies with Australian Government Fraud Control Guidelines.
- The Chief Executive Instructions put into effect the *Financial Management and Accountability Act 1997* requirements, setting out responsibilities and procedures which provide an overarching framework for transparent and accountable financial management. The Chief Executive Instructions also contain topics relating specifically to risk management and internal accountability.
- The Internal Audit Plan identifies services and functions for auditing. The plan incorporates issues raised by the ANAO in its audit of the Treasury's financial statements, and where appropriate, recent ANAO reports on cross-agency matters, upcoming management issues, policy evaluations, previous internal audits and strategic risk management issues.
- Risk management and insurable risks are aligned through Comcover and Comcare.

Treasury strategies aim to identify and manage risks associated with delivery of information technology (IT) services. IT governance includes:

- the IT Disaster Recovery Plan which sets out the strategies and processes to restore services if the Treasury's central computing infrastructure is lost completely or partially. The plan aims to restore services within an appropriate time;

- the Business Continuity Plan for the Treasury's IT application systems which set out alternate methods and processes to use, so the Treasury can continue to work while the environment is restored;
- the IT Security Policy which addresses the requirements to protect information holdings and secure operation of the Treasury's IT resources. The policy is based on the protective security policies and standards in the Australian Protective Security Manual, the Draft Australian Communications Security Instruction — Electronic Security Instructions 33(A) and ANAO recommendations;
- the Internet and Email Acceptable Use Policy which sets out responsibilities for appropriate use of the internet, email facilities and services. This policy refers to the Australian Public Service Values and Code of Conduct, the *Public Service Act 1999*, other relevant Australian Government legislation and the Treasury IT Security Policy;
- the Website Development Standards and Guidelines based on ISO 9001 and ACSI 33, and the International Organization for Standardization and Defence Signals Directorate guidelines which ensures compliance with best practice website security;
- the IT Change Control Guidelines (an internal management tool) which assists with quality assurance control over proposed changes to the technical environment and facilities. It involves reviewing proposed variations and clearing them before releasing changes in the production environment;
- the IT Risk Management Strategy, developed in accordance with the Defence Signals Directorate guidelines, which identifies technical risks associated with the Treasury's IT infrastructure and management practices;
- Project Standards, internal standards based on the structured project management methodology PRINCE2, which ensures correct project governance is applied to Information and Communications Technology projects; and
- Applications Development Standards, internal standards based on a phased System Development Life Cycle, which ensure disciplined, consistent and repeatable process is applied to software development and deployment.

Staff awareness of risk management policies and procedures is raised through training programs and Treasury staff notices. All policies and procedures are available to staff in hard copy and on the intranet.

ETHICAL STANDARDS AND ACCOUNTABILITY

The Treasury Management Model incorporates Treasury people values to guide and support Treasury staff members in their day-to-day work. These values are closely aligned with the Australian Public Service (APS) values. They are embedded in the Performance Management System and are referred to in the capability framework for non-SES staff. Staff members are appraised against the values.

All Treasury Workplace Agreements contain a commitment from employees to be aware of, and to uphold, the Treasury and APS values.

The Treasury learning and development activities reinforce the ethical responsibilities of staff. The APS and Treasury Accountabilities Workshop was introduced during the year, aimed at new starters. It provides participants with an understanding of the APS, Treasury accountabilities and corporate governance frameworks. The Executive Level Leadership Program, the Treasury Certificate in Business Services for APS1-5 officers, the Graduate Development Program and performance appraisal training reinforce the values and behaviours expected of staff within both the department and the broader public sector.

The Chief Executive Instructions establish the Treasury's financial administrative framework under the *Financial Management and Accountability Act 1997*. They provide the basis for effective, efficient, ethical and accountable use and management of Commonwealth money and property. The Treasury reviews and updates the instructions regularly.

The Chief Executive Instructions provide a user-friendly approach to financial management processes and provide staff with guidance to help them comply with legislation and the Treasury's ethical standards.

All corporate governance policies and procedures are available on the intranet.

SENIOR EXECUTIVE SERVICE REMUNERATION

Terms and conditions for all Treasury senior executive service employees are contained in either Australian Workplace Agreements (AWAs) or individual s.24(1) determinations made by the Secretary.

Senior executive service staff are appraised using the Australian Public Service Commission's Senior Executive Leadership Capability Framework. That involves making individual rankings against each of the framework's five criteria, then arriving at an overall relative ranking for the person, which reflects performance.

An increase in ranking based on longer-term performance can lead to an increase in base salary (refer to Table 9 on page 145). Additional information on remuneration and performance pay is set out in Note 13: Executive remuneration in the Financial Statements on page 205.

INTERNAL AND EXTERNAL SCRUTINY

AUDIT

The Audit Committee convened six times in 2007-08. The committee's work included reviewing the Treasury's financial statements and a range of internal and external audit reports.

The Audit Committee's Financial Statements sub-committee convened twice in 2007-08, and comprised members from the Treasury, the ANAO, the Treasury's internal audit service provider and the external representative of the Treasury Audit Committee. The sub-committee monitors production of the financial statements and acts as a forum for resolving issues.

The Treasury engaged KPMG to develop the 2007-08 internal audit program. The Audit Committee, assisted by KPMG, continuously improves audit services by regularly reviewing the Treasury's audit program and scrutinising internal audit recommendations, as well as relevant ANAO reviews.

INTERNAL AUDITS — TREASURY

The Treasury completed four internal audits/reviews during 2007-08.

Business continuity planning

This review considered the Government's requirements and better practice tools for business continuity management and their application to the Treasury. KPMG examined the Treasury's overarching Business Continuity Plan and a selection of supporting plans for key outputs to ensure they are appropriate to maintain critical business operations in the event of unplanned disruption.

The Treasury's existing business continuity management framework is sound. The Treasury has agreed to implement the three best practice recommendations arising from the review.

End user computing

This review assessed the Treasury's approach in controlling the development, maintenance and use of end user computing solutions, such as spreadsheets, for key business processes

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to ensure they are used in a way that is commensurate with their significance and criticality.

The Treasury agreed to develop an overarching management strategy for end user computing to address KPMG's recommendation.

Key application security

This review assessed whether current user access management processes are in line with organisational requirements and are appropriate to prevent unauthorised transaction processing and/or access to data.

No instances of inappropriate levels of staff user access were identified. KPMG made four recommendations to improve processes around the documentation of user addition, modification and removal from the Treasury's key systems. The Treasury agreed to implement the recommendations.

Ministerial processes

This review provided assurance that the Treasury is managing the risks associated with the ministerial briefing process. Investigation focused on the Treasury's internal processes which track ministerial responses against agreed timeframes.

The Treasury has agreed to implement eight business improvement recommendations to improve the efficiency of the ministerial process.

AUSTRALIAN NATIONAL AUDIT OFFICE REPORTS

In 2007-08, the ANAO conducted one performance audit specific to the Treasury's operations.

Audit Report No. 32: Preparation of the Tax Expenditures Statement

Tax expenditures are tax concessions that provide benefits to specified activities or to a class or classes of taxpayer.

This audit assessed the completeness and reliability of the estimates reported in the *Tax Expenditures Statement 2006*. In particular, the audit examined:

- the development and publication of the detailed statement of actual tax expenditures required by Division 2 of Part 5 of the *Charter of Budget Honesty Act 1998*;

- systems and supporting records used to produce and publish the *Tax Expenditures Statement 2006*;
- methods, models and data sources the ATO uses to produce the reported estimates of tax expenditures; and
- reporting of tax concessions by some other agencies responsible for administering Commonwealth taxing and charging laws so as to assess completeness of the tax expenditures statement. In particular, the Australian Customs Service was included in the audit.

The ANAO's six recommendations to increase ongoing scrutiny of tax expenditures are to better integrate consideration of tax expenditures into the budget processes; better integrate reporting of outlays and tax expenditures; extend the scope of tax expenditure reporting to cover all Commonwealth revenues; improve the quality of tax expenditure reporting by including estimates of large tax expenditures on a revenue gain approach; and improve the reliability of tax expenditure estimates by implementing improvements to estimation methods, reporting and measurement of tax expenditures.

The Treasury has accepted the recommendations with some qualifications. The Treasury regards the publication of the annual tax expenditures statement as an integral part of the Australian Government's budget reporting. The tax expenditures statement allows for greater scrutiny of government assistance to taxpayers and other interventions in the economy that are achieved through the tax system, and contributes to the tax system's design by promoting and informing public debate on it. The Treasury considers that the reporting of tax expenditures will continue to improve through greater use of data held by other agencies and disclosure of the reliability of estimates. The Treasury notes that in respect of improving the reliability of the tax expenditures statement estimates, availability of data is the key constraint. Therefore the benefits from improving the reliability of estimates must be weighed against the cost of increasing the compliance cost burden on taxpayers.

Other ANAO reports relevant to the Treasury's operations in 2007-08 are:

- Report No. 7: *The Senate Order for the Departmental and Agency Contracts (Calendar Year 2006 Compliance)*;
- Report No. 10: *Whole of Government Indigenous Service Delivery Arrangements*;
- Report No. 12: *Administration of High Risk Income Tax Refunds in the Individuals and Micro Enterprises Market Segments*;
- Report No. 13: *The Australian Taxation Office's Approach to Managing Self Managed Superannuation Fund Compliance Risks*;
- Report No. 15: *Administration of Australian Business Number Registrations Follow-up Audit*;

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- Report No. 18: *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2007;*
- Report No. 23: *The Management of Cost Recovery by Selected Regulators;*
- Report No. 30: *The Australian Taxation Office's Use of Data Matching and Analytics in Tax Administration;*
- Report No. 31: *Management of Recruitment in the Australian Public Service;*
- Report No. 36: *The Australian Taxation Office's Strategies to Address Tax Haven Compliance Risks;*
- Report No. 37: *Management of Credit Cards;*
- Report No. 40: *Taxpayer's Charter Follow-up Audit;*
- Report No. 41: *Management of Personnel Security Follow-up Audit;* and
- Report No. 44: *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ending 30 June 2008.*

The Treasury's Audit Committee follows ANAO better practice guidelines by actively reviewing relevant matters raised in audit reports, and overseeing follow-up action. Details of audit reports are available at www.anao.gov.au.

FRAUD PREVENTION AND CONTROL

In 2007-08 two new cases of fraud were referred to the Australian Federal Police for investigation. The Treasury resolved two cases of fraud involving false submissions made to the HIH Claims Support Scheme.

The Treasury maintains a Fraud Control Plan in compliance with the Commonwealth Fraud Control Guidelines issued under regulation 19 of the *Financial Management and Accountability Regulations 1997*.

Accordingly, it is certified that the Treasury has appropriate fraud control, prevention, detection, investigation and reporting standards in place; and annual fraud control data has been collected and reported.

OMBUDSMAN COMMENTS, COURT DECISIONS AND ADMINISTRATIVE TRIBUNAL DECISIONS

OMBUDSMAN COMMENTS

No comments were received from the Ombudsman in 2007-08.

COURTS AND PROCEEDINGS

Corporations Act — constitutional validity — Attorney-General (Cth) v Alinta Limited

On 13 December 2007, the High Court decided that paragraph 657A (2)(b) of the Corporations Act (now amended, and renumbered as paragraph 657A (2)(c)), was not invalid because it did not confer the judicial power of the Commonwealth on the Takeovers Panel in contravention of Chapter III of the Constitution. The decision set aside the Full Federal Court's declaration in *Alinta Limited v Takeovers Panel* that paragraph 657A (2)(b) was invalid. The High Court decision confirms the Takeovers Panel's role as the main forum for resolving takeovers disputes until the bid period ends.

Trade Practices Act — access to services — Fortescue Metals Group Ltd

On 13 June 2006, Fortescue Metals Group applied to the Australian Competition Tribunal for a review of the previous Treasurer's deemed decision under Part IIIA of the *Trade Practices Act 1974* not to declare the Mt Newman rail line operated by BHP Billiton. The review is ongoing.

On 18 December 2006, in proceedings initially instigated separately by BHP Billiton and Fortescue Metals Group, the Federal Court ruled that BHP Billiton's Mt Newman and Goldsworthy rail lines may be subject to declaration applications under Part IIIA, as they do not represent 'use of a production process'. On 12 January 2007, BHP Billiton lodged an appeal against the Federal Court decision to the full court of the Federal Court. The appeal was heard in late April 2007 and the full Federal Court dismissed the appeal on 5 October 2007. On 7 March 2008, the High Court heard and allowed an application by BHP Billiton for special leave to appeal the full Federal Court's decision. The High Court heard the appeal on 29 July 2008 and has deferred its decision.

In addition, on 4 July 2007, Rio Tinto applied to the Federal Court to prevent the Australian Competition Tribunal from hearing the matter due to a lack of jurisdiction. Rio Tinto claims that the tribunal cannot hear the matter as the definition of 'service' to which Fortescue Metals Group is seeking access has changed since the initial application

to the National Competition Council. The matter was heard by the full court of the Federal Court of Australia and was dismissed on 14 February 2008.

A subsidiary of Fortescue Metals Group (The Pilbara Infrastructure Pty Ltd) has lodged three further applications for railway services in the Pilbara region of Western Australia, including the Hamersley line operated by Rio Tinto. The National Competition Council released its draft recommendations on the application on 20 June 2008. On 24 December 2007, Hamersley Iron Pty Ltd (a subsidiary of Rio Tinto) commenced proceedings challenging the National Competition Council's ability to consider the Hamersley application. The Federal Court dismissed the application on 5 May 2008.

Trade Practices Act — access to services — Services Sydney Pty Ltd

In November 2006, Services Sydney Pty Ltd notified the Australian Competition and Consumer Commission, under Part IIIA of the *Trade Practices Act 1974*, of an access dispute with Sydney Water Corporation. The dispute relates to the pricing method used to determine access prices Services Sydney is to pay for certain services provided by Sydney Water and declared under Part IIIA. On 22 June 2007, the Australian Competition and Consumer Commission made its final determination and issued its statement of reasons for its arbitration of the access dispute.

ADMINISTRATIVE APPEALS TRIBUNAL

Freedom of information — Fisse and the Department of the Treasury

An application was made to the Administrative Appeals Tribunal for a review of a decision by the Treasury not to release information in response to a request under the Freedom of Information Act for a report from an interdepartmental working group to government on introducing criminal sanctions for serious cartel conduct. The Administrative Appeals Tribunal affirmed the Treasury's decision on 10 April 2008.

MANAGEMENT OF HUMAN RESOURCES

The Human Resources Division delivers strategic human resource management advice and services to enable the Treasury to recruit, develop and manage its staff to deliver high performance and to provide a supportive work environment.

Key 2007-08 workforce initiatives included:

- ensuring workforce and staff wellbeing strategies met organisational needs;
- developing and implementing strategies to address key issues identified in the staff survey;
- reviewing the Performance Management System; and
- continuously improving human resource business systems and organisational reporting.

PEOPLE MANAGEMENT SYSTEMS

The Treasury's people management systems are underpinned by the Treasury Management Model and the Treasury's people management principles and values. These principles and values define the way staff work in the Treasury and provide the basis for people management systems and processes.

PERFORMANCE MANAGEMENT SYSTEM

The Treasury's Performance Management System underpins the Treasury's capacity to achieve its mission by strengthening individual capabilities and aligning individual values and behaviors with shared corporate values and behaviors. The Treasury Performance Management System is based on clearly articulated capability frameworks — the Work Value Matrix which defines the capabilities required by all employees at the APS and EL classifications and the Senior Executive Service (SES) Capability Framework which defines the capabilities for SES staff.

The capability frameworks not only provide the basis for appraisals, but underpin recruitment processes, the Professional Development Framework and the Career Development System.

Ratings against each capability criterion contribute to the overall outcome, which determines the base pay for staff employed under the Treasury Workplace Agreement. The Performance Management System outcomes also inform the remuneration

Part 3: Management and accountability

committees which advise the Secretary on salary levels for APS6, EL1 and EL2 staff covered by individual arrangements.

Following a review of the Treasury Performance Management System, the Executive Board agreed in December 2007 to adopt a new naming convention for ratings against individual criteria and the overall assessment, and move to a five point rating and assessment scale. These changes took effect in the August 2008 appraisal round.

Two new ratings against individual criteria better identify employees who are 'developing to standard' and employees 'not meeting standard'. These changes facilitate improved identification of staff development needs and more realistic appraisals, particularly for newly promoted or appointed employees.

To support introduction of the new rating system, and refresh all employees' understanding of the system, a comprehensive program of training on the Treasury Performance Management System was delivered to all employees, including the Executive Board. Training by internal facilitators began in June 2008 and continued until the August 2008 appraisal round, with case-study based workshops fostering discussion and understanding.

A number of processes support the underlying principles of fairness, transparency and consistency in the Performance Management System.

- In setting the context for appraisals, initially SES staff meet before each appraisal round to discuss issues relevant to the upcoming round, then group and divisional context setting meetings follow.
- Workshops and information sessions before each appraisal round provide information on the process for new staff; refresh staff knowledge; and develop skills in giving and receiving feedback for appraisees and managers.
- Review panels, usually at the divisional level, examine the outcomes of appraisals to ensure consistency across the division.
- Cross-group representatives on review panels provide an additional focus on consistency across the Treasury.
- Upward feedback is an integral part of the appraisal process and provides input to the appraisals of managers.

While formal appraisal meetings are held twice a year in February and August, regular informal feedback is encouraged to facilitate productive staff management. Managers are encouraged to seek feedback from a range of sources before the appraisal meetings. Employees who meet specified criteria can elect to have an informal appraisal (rather than a formal appraisal) in the February appraisal round.

CAREER DEVELOPMENT SYSTEM

The Career Development System is part of the Treasury's people systems and the Treasury Management Model. It applies to all staff, including temporary employees and secondees with at least six months continuous service and provides staff with career development guidance by managers-one-removed.

In 2007-08, staff were offered two training sessions on 'Planning for Your Next Position', with graduates and APS6 to EL1 employees offered career planning workshops.

In addition, further guidance on the Career Development System is being developed for implementation in 2008-09. This highlights career development activities and opportunities for Treasury staff to support their career guidance discussions with managers-one-removed.

WORKPLACE AGREEMENT

The Treasury Workplace Agreement 2006-09 came into operation on 7 September 2006 and nominally expires on 6 September 2009.

It provides for increased pay rates (refer to Table 10 on page 145), minor variations to conditions of service, including monthly accrual of annual leave; removal of limits for payment in lieu of accrued annual leave on leaving the APS; increased paid leave to assist employees and their partners during maternity leave; one day's paid leave to participate in community or charity work; and removal of the five day cap for the amount of carer's leave that can be taken at any one time. The agreement also encourages managers and staff to proactively manage excess leave to facilitate staff taking regular breaks from work.

As part of the remuneration and conditions framework, the Treasury continued the program of AWAs for employees classified as APS6, EL1 and EL2, along with the introduction of s.24(1) determinations for new staff following changes to the Government's Bargaining Framework in February 2008. The performance-based pay model has salary levels above those available under the Workplace Agreement, but identical conditions of service.

WORKPLACE RELATIONS

The format and content of the Treasury's workplace and individual arrangements reflect government policy on agreement making at the time of implementation.

The Treasury consults extensively with staff on workplace matters, and the Workplace Agreement reinforces staff involvement in decision making. Consultation primarily occurs through the Workplace Relations Committee, elected by all Treasury staff and comprising

eight members. The committee meets regularly with the Secretary and Human Resources Division staff to discuss employment terms and conditions related matters. The Workplace Relations Committee was reconstituted during the year with elections held for all eight positions and revised Terms of Reference agreed to by the new committee. The new streamlined Terms of Reference reflect a more principles based approach.

The Treasury Workplace Agreement 2006-09 and individual arrangements provide access to procedures to resolve disputes and directly consult with staff as appropriate. A network of staff advisors assists staff with issues relating to performance appraisals, remuneration or the working environment. This network complements other staff support processes, such as human resources advisors and an employee assistance program delivered by an external provider.

RECRUITMENT AND SUCCESSION PLANNING

The Treasury's recruitment activity in 2007-08 included two major bulk selection campaigns, a graduate campaign, a cadetship program and 111 individual processes. Overall, 229 roles were filled from advertised vacancies. The graduate intake was 54 in 2008.

Graduate recruitment forms a major part of the Treasury's recruitment and succession planning strategy. In 2007-08, Treasury staff attended university career fairs and economic society information sessions, presented to final year students and distributed '*Do you want to make a difference?*' brochures to university careers centres and faculties. In addition, advertisements were placed in major national newspapers, in graduate publications and on university career web pages.

In 2007-08, the Treasury continued with the cadetship program. This initiative targets economic honours and postgraduate students and involves a 4-6 week summer internship with financial assistance and support from Treasury mentors throughout the cadet's final year of study.

The Treasury's internet careers portal provides job seekers with five targeted avenues to register for employment and to lodge their applications for advertised vacancies. A dedicated section for graduates provides information on the Graduate Development Program including roles and expectations.

The Treasury's alumni uses non-ongoing and general employment registers and the APS Jobs portal to source candidates with the required skills and expertise to fill short term and casual roles that arise.

In accordance with Government procurement guidelines the Treasury conducted and completed an open tender process for an e-recruitment provider.

Recruitment information and procedures to assist applicants, managers, referees and selection committees were reviewed and consolidated in 2007-08. These procedures

complemented the delivery of interviewer/interviewee skills training courses. In addition, amendments to the Public Service Commissioner's Directions provided flexibility in resourcing senior executive non-ongoing roles of a temporary nature.

During 2007-08 the Treasury implemented the Australian Public Service Commission/Government's new procedures for the filling of senior public service appointments.

The Human Resources Division in conjunction with the Financial and Facilities Management Division, and the four policy groups work closely on workforce planning to recruit appropriately skilled staff. Workforce diagnostic information informs workforce planning for all levels of the Treasury's organisational structure.

LEARNING AND DEVELOPMENT

The Treasury's Professional Development Framework provides timely opportunities for staff to develop their skills and knowledge for current and future roles and responsibilities.

The Treasury's capability frameworks form the basis for identifying organisation-wide learning and development requirements. The frameworks enable the Performance Management and Career Development Systems to match staff needs and expectations with learning and development priorities.

LEARNING AND DEVELOPMENT STRATEGIES

The Treasury provides staff with an extensive array of learning and development opportunities to enable capability development, networking and the retention of corporate knowledge. Training courses held over one or two days or over a semester in length are offered for development in both corporate as well as more specific technical skills.

A large part of 2007-08 was focused on developing a suite of postgraduate programs in economics. The tender process conducted in November 2007 resulted in the Australian National University presenting an Introduction to Economics course commencing in August 2008 and Monash University selected to present a Graduate Diploma in Economic Studies and a Postgraduate Diploma in Economics and Commerce commencing in 2009 and 2010 respectively. Other Commonwealth agencies have indicated their interest in reserving places on these programs.

In October 2007 a tender process was conducted for a semester long Introduction to Law course. The Australian National University College of Law will present the course from Semester 2 in 2008. The course provides an opportunity for participants to gain accreditation towards a postgraduate law qualification.

Part 3: Management and accountability

Senior executives continue to participate in the Australian Public Service Commission leadership courses and seminars, as well as executive coaching provided by a panel of providers.

Other learning and development opportunities include short courses such as APS and Treasury accountabilities, advanced writing skills, managing workloads, financial management, policy advising, interviewer skills, providing oral advice, career planning and effective teamwork. All workshops are tailored to the Treasury's needs and are evaluated with outcomes feeding into the development of subsequent programs.

The Treasury's Certificate in Business Services program is designed for corporate, administrative and executive support staff at the APS1-6 level. The program's nine foundation modules develop a range of skills across the Treasury's Work Value Matrix, including written and oral communication skills, teamwork, client service delivery and effective time management. The fifth iteration of the program commenced in February 2008 with 38 staff attending.

The Treasury's Executive Leadership Program aims to enhance the leadership and strategic thinking skills of executive level staff to equip them to fulfil their leadership and management roles. In 2007, 37 executive level staff completed the program with 22 participating in the 2008 program which commenced in June 2008.

The Treasury has continued its mentoring program designed to assist new recruits in the transition to the Treasury. Fifty new recruits have participated as mentorees since the program commenced in May 2005. The program is evaluated every six months.

An evaluation of the new starter process was conducted in July 2007, and in November, a new starter's site was developed for the intranet. This site includes a checklist for managers, a new starter's guide, a training manifest and a peer support program where a person from within the team assists the new starter in their first few weeks in the Treasury.

The 12 month Graduate Development Program combines on-the-job training with formal in-house courses, such as advanced writing, governance and APS decision making, effective teamwork, presentation skills and economics for graduates. The program also includes external courses, such as 'Introduction to the Senate' as well as familiarisation tours and participation in key events, such as the budget 'lock-up' where budget material is provided under embargo to registered media officers. The program is refined through feedback from graduates and graduate managers.

In 2007-08, the Treasury's four policy groups organised internal workshops and divisional policy seminars to share and disseminate information to staff.

- Macroeconomic Group offered weekly Economic Policy Workshops for more junior staff to further develop presentation skills and brainstorm economic policy issues. Staff were also offered specialised training in economic modelling. The group's senior and executive level staff participated in regular economic and organisational discussions.

- Fiscal Group held a series of seminars presented by both internal and external speakers on a range of policy topics relevant to the group, and held a number of internal policy discussions on emerging issues.
- Revenue Group arranged for the Australian Taxation Office to facilitate a two day Introductory Tax course for new starters. The Australian National University developed and facilitated the Revenue Group Public Finance course, first offered in 2006. Several 2-day Tax Policy Framework courses were presented to new starters and external participants, including representatives from New Zealand Inland Revenue.
- Markets Group staff attended monthly group seminars to participate in learning about current economic events particularly relevant to them. Monthly policy presentations also provided a high level of discussion on current policy issues.

The Treasury Seminar Series continued with prominent guest speakers presenting current economic issues and research. An average of 44 staff attended each of the 20 seminars presented in 2007-08.

INFORMATION TECHNOLOGY INITIATIVES AND TRAINING

During 2007-08, IT training offered staff an extensive suite of client focused programs. The 2,171 attendances were 342 more than the previous year.

Training on a range of IT related topics, included desktop applications, security awareness, IT for new starters, electronic records management and records awareness, customised training for in-house systems; desktop applications and publishing projects, the financial management information system and the internal budgeting and reporting tool, TM1.

Key training initiatives included an increased focus on providing training on using Outlook responsibly and productively, and the introduction of compulsory training for new staff on IT Security and recordkeeping awareness.

EXTERNAL LEARNING AND DEVELOPMENT OPPORTUNITIES

In addition to providing internal learning and development opportunities, the Treasury encourages staff to participate in external learning activities. These include studies assistance, exchanges, research projects, postgraduate study awards, as well as attendance at Career Development Assessment Centres, the Australian and New Zealand School of Government and numerous conferences, seminars and workshops.

Over 115 employees accessed studies assistance each semester in 2007-08. Students can receive a maximum of \$2,500 per semester up to a maximum of \$5,000 per year in financial assistance as well as access to study leave.

The Treasury has a memorandum of understanding in place with the Australian National University to facilitate on campus Short-term Economic Research projects. Three staff have undertaken projects so far; the most recent project examined the relationship between a company's adoption of the Australian Securities Exchange's Corporate Governance Council's Principles of Good Corporate Governance and best practice recommendations and its financial performance in the areas of shareholder performance, operating performance and one-year sales growth for the top 300 Australian listed companies from 2003 to 2006.

Treasury's staff development costs totalled over \$3.6 million in 2007-08, reflecting an average of over five days of training per staff member. This figure includes participant salary and on-costs, registration fees for internal and external training courses and external providers' development and delivery costs.

WELLBEING

The Treasury has continued to monitor its performance against its Staff Wellbeing Framework that uses a range of tools to regularly assess performance indicators of staff wellbeing. The Human Resources Division provides regular management information reports to the Executive Board, the Workplace Relations Committee and staff on the results and strategies developed to improve performance.

Results of the fourth Treasury Staff Opinion Survey were presented to staff in September 2007. The survey provides important information to assist in the development of wellbeing and workforce strategies and programs. Staff continue to record high levels of satisfaction, including with Treasury people and their values, the challenging work environment, a safe and healthy workplace, access to learning and development, and security awareness.

Some progress was made in areas identified by the Executive Board as needing further improvement including: consultation; communication, particularly regarding information disseminated to staff by the Executive Board; resource allocation; feedback to staff on Remuneration Committee outcomes; and improved career development advice.

However, small declines in overall satisfaction levels were recorded in 2007 in job and career satisfaction, particularly amongst the EL1 cohort. This issue is not unique to the Treasury, and has been identified as an issue where all agencies need to focus to ensure the ongoing sustainability of the APS.

The staff survey results were released to staff and discussed in staff seminars attended by members of the Executive Board with follow-up work progressed by the Human Resources Division.

The 2007 staff survey findings are consistent with the 2006-07 State of the Service Employee survey results in which the Treasury's results were significantly more favorable than the APS average in the key areas of overall job, work and career satisfaction.

The Treasury's employee assistance program also provides generic data that provides guidance for appropriate wellbeing strategies. An external provider manages the program and continues to assist employees who may be experiencing personal or work-related problems. It provides a free, confidential counselling service to Treasury employees and their families. To complement this service, the eapdirect™ website offers easy access to information on stress, depression, anxiety, work-life balance, career development and management techniques. The employee assistance provider also offers managerAssist®, an advisory service that assists managers to deal with work performance issues and personal difficulties.

The Treasury continues to monitor staff departures and the exit survey tool was reviewed and enhanced. This will provide further detail on reasons for movements and allow the Treasury to respond effectively to factors that result in staff turnover, and allow the Treasury to target workforce and staff wellbeing strategies appropriately.

In May 2008, the annual Staff Wellbeing Framework report was again presented to the Executive Board. This report ensures that staffing data is regularly provided to assess staff wellbeing and its impact on the Treasury's operations. The paper did not identify significant risks to current operations but highlighted emerging stress points which could impact on future capabilities, particularly in the context of a tightening budgetary climate. These include reduced career opportunities particularly at the EL1 level and increasing concerns about work-life balance and associated occupational health and safety risks. Going forward, the Human Resources Division is exploring these issues further and progressing strategies to minimise the risks.

STAFFING INFORMATION

The Treasury's ongoing and non-ongoing employee numbers increased from 921 to 941 (refer to Tables 7 and 8 on page 144). Graduate (APS3) recruitment increased from 41 in 2006-07 to 53 in 2007-08. The number of EL1 employees increased from 206 in 2006-07 to 219 in 2007-08, while the number of APS4 employees decreased from 68 to 62.

Table 7: Operative and paid inoperative staff by classification and gender (as at 30 June 2008)

Classification	Ongoing				Non-ongoing						Total	
	Full-time		Part-time		Full-time		Part-time		Casual			
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female		
APS1	1	2	-	-	-	-	-	-	-	-	-	3
APS2	-	3	-	-	-	2	-	-	-	-	-	5
APS3	44	38	-	4	5	4	1	-	-	-	-	96
APS4	13	36	-	9	1	3	-	-	-	-	-	62
APS5	50	63	2	7	-	2	-	-	-	-	-	124
APS6	86	73	3	11	2	4	-	2	-	-	-	181
EL1	109	81	6	14	5	3	-	-	-	-	1	219
EL2	103	37	8	19	4	-	1	-	1	-	-	173
SES Band 1	40	12	-	4	1	-	-	-	-	-	-	57
SES Band 2	10	2	1	1	-	-	-	-	-	-	-	14
SES Band 3	6	-	-	-	-	-	-	-	-	-	-	6
Secretary	1	-	-	-	-	-	-	-	-	-	-	1
TOTAL	463	347	20	69	18	18	2	2	1	1	1	941

Note: Staff paid by other agencies are not included.

Table 8: Staff located at overseas posts

Overseas post	SES Band 2	SES Band 1	EL2	Total
Beijing	-	1	-	1
Jakarta	-	-	1	1
Paris	-	1	1	2
Tokyo	-	1	-	1
Washington	1	-	-	1
Total	1	3	2	6

Note: Locally engaged staff are not included.

SENIOR EXECUTIVE SERVICE — REMUNERATION AND PERFORMANCE APPRAISAL

Remuneration and conditions for Treasury senior executives are determined under AWAs and individual arrangements, supported by a remuneration model that determines pay levels within each senior executive service level, based on performance (refer to Table 9 on page 145).

Table 9: Salary scales — SES

Classification	September 2006		September 2007	
	Minimum	Maximum	Minimum	Maximum
	\$	\$	\$	\$
SES Band 1	151,348	175,899	157,402	182,935
SES Band 2	185,496	217,116	192,916	225,801
SES Band 3	240,392	281,537	250,008	292,798

Senior executives are appraised using the APS Senior Executive Capability Framework to assess performance and rank each employee relative to their peers. An increase in relative ranking can lead to an increase in base salary.

Senior executives may have access to airline lounge membership, mobile phones and handheld wireless communication devices. Some may also have home office facilities, if appropriate.

REMUNERATION — NON-SES EMPLOYEES

The Treasury Workplace Agreement 2006-09 determines salary rates for all non-SES staff (refer to Table 10 below).

Table 10: Workplace Agreement salary scales — non-SES

Classification	September 2006		September 2007	
	Minimum	Maximum	Minimum	Maximum
	\$	\$	\$	\$
APS1	34,819	37,811	36,212	39,324
APS2	40,135	42,791	41,740	44,502
APS3	45,448	48,104	47,266	50,028
APS4	50,761	53,418	52,792	55,554
APS5	57,072	60,726	59,355	63,155
APS6	64,379	68,032	66,954	70,753
EL1	75,771	83,975	78,802	87,334
EL2	93,972	102,573	97,003	106,676

Note: Salary levels under the Workplace Agreement are determined on the basis of performance appraisal under the Treasury's Performance Management System.

The Treasury's remuneration policy provides for access to pay rates higher than those in the Workplace Agreement to all employees classified as APS6, EL1 and EL2, through individual arrangements (refer to Table 11 on page 146).

Table 11: APS6, EL1 and EL2 additional pay points

Classification	Staff eligible 2007-08	Staff receiving additional pay point 2007-08	Minimum additional pay point 2007-08	Maximum additional pay point 2007-08
			\$	\$
APS6	181	93	76,281	81,116
EL1	219	133	94,187	100,183
EL2	173	139	111,927	122,428
Total	573	365		

Salary levels under individual arrangements are determined by the Secretary, based on remuneration committee recommendations aligned with performance appraisal assessments and assessment of long term sustainable performance, as well as relevant skills and responsibilities.

SENIOR MANAGEMENT CHANGES

Several senior management movements occurred in 2007-08 (refer to Table 12 below).

Table 12: SES ongoing commencements and cessations

Reason	SES Band 3	SES Band 2	SES Band 1	Total
Engagement	1	1	1	3
External Promotion	-	-	1	1
Internal Promotion	1	-	1	2
Resignation	-	-	2	2
Retirement	-	1	-	1
Transfer to another department	1	-	1	2
Promoted to another department	1	1	1	3

PROCUREMENT AND ASSET MANAGEMENT

PROCUREMENT

The Treasury's procurement framework reflects the core principle governing Australian Government procurement—value for money. The Treasury's approach to the procurement of all goods and services, including consultancies, is consistent with the requirements of *Commonwealth Procurement Guidelines—January 2005—Financial Management Guidance No.1*. The guidelines are applied to the Treasury's activities through the Chief Executive Instructions and supporting operational guidelines.

The Treasury's procurement policies and processes help ensure the Treasury undertakes competitive, non-discriminatory procurement processes; uses resources efficiently, effectively and ethically; and makes decisions in an accountable and transparent manner. Responsibility for procurement is devolved to individual business groups. The Treasury supports the decentralised approach to procurement by providing information and training about procurement policies and procedures to all staff, and maintaining a single point of contact for staff to seek advice on the guidelines, the Chief Executive Instructions and tendering processes. Standardised tendering and contracting documentation ensures consistent procurement practices are employed across the Treasury.

The Treasury's procurement framework places responsibility for procurement with the appropriate financial delegates. Currently, all proposed procurements valued at \$10,000 or more are subject to review by the Treasury's Central Procurement Team to ensure due process is followed.

Details of certain agency agreements and Commonwealth contracts are published on AusTender, but 'if the Chief Executive of an agency decides that details of an agency agreement or Commonwealth contract (including standing offers) are exempt matters under the *Freedom of Information Act 1982*, the Chief Executive may then direct, in writing, that details are not to be published'. No such directions were issued during 2007–08.

ASSET MANAGEMENT

The Treasury manages both current and non-current assets in accordance with guidelines set out in the Chief Executive Instructions and relevant accounting standards.

The Treasury's non-current assets are subject to an annual stocktake to ensure records are accurate. All assets were tested for impairment, and no adjustments to the carrying value were required.

Revaluations have been done during 2007-08 using the fair value method of valuation required by AASB 116 Property, Plant and Equipment.

CONSULTANCIES

Consultants are engaged to investigate or diagnose a defined issue or problem; carry out defined research, reviews or evaluations; provide independent advice; and provide information or creative solutions to assist the Treasury in its decision-making. The most common reasons for engagement of consultancy services are:

- unavailability of specialist in-house resources in the timeframe allowed;
- the need for an independent study or review; and
- specialist skills and knowledge not available in-house.

Providers of consultancy services are selected through open tender, select tender, direct sourcing or panels. These processes are detailed in the note in Table 13.

During 2007-08, 42 new consultancy contracts were entered into involving total expenditure of \$2,540,115. In addition, 53 on-going consultancy contracts were active during the year, involving total actual expenditure of \$3,413,337. These amounts include GST.

Information on expenditure on contracts and consultancies is also available on the AusTender website www.tenders.gov.au.

Table 13, below, summarises consultancy contracts let in 2007-08 valued at \$10,000 or more.

Table 13: List of new consultancies over \$10,000 in 2007-08

Consultant name	Description	Contract price \$	Selection process ⁽¹⁾	Justification ⁽²⁾
ABARE	Provide preliminary assessment of agricultural land use, land use change and forestry dynamics within the context of a market for greenhouse gas emissions	35,000	Direct sourcing	B
ACIL Tasman Pty Ltd	Provide analysis of the electricity generation sector	55,044	Select tender	A
Acumen Alliance	Provide financial advice and support for the Standard Business Reporting Program	200,000	Panel	A
Australian Government Solicitor	Provide legal advice on the <i>Foreign Acquisition and Takeovers Act 1975</i>	14,952	Direct sourcing	A
Australian Government Solicitor	Provide legal services for limitation of common law liability	17,600	Select tender	B

Table 13: List of new consultancies over \$10,000 in 2007-08 (continued)

Consultant name	Description	Contract price \$	Selection process⁽¹⁾	Justification⁽²⁾
Australian Government Solicitor	Provide legal advice to assist in responding to freedom of information requests	48,000	Panel	B
Australian Government Solicitor	Provide legal advice on property investment collapses	10,956	Panel	B
Australian National University	Provide analysis on the economic impacts of greenhouse gas emission reduction goals	49,500	Direct sourcing	B
Australian National University	Provide quantitative economic analysis of the macroeconomic, sectoral and distributional implications of achieving different long-term greenhouse gas emission reduction goals and trajectories	66,000	Direct sourcing	B
B Armstrong & Co Pty Ltd	Provide a review and report on the building services in West Block, Canberra.	13,695	Direct sourcing	B
Bizi Bytes	Provide IT architecture development and project support to the Standard Business Reporting Program	375,840	Select tender	A
Blake Dawson	Provide services to membership of the Tax Law Design Review Panel	15,000	Select tender	B
Broadleaf Capital International Pty Ltd	Provide risk and liability advice and support services for the Standard Business Reporting Program	50,000	Panel	B
Clientwise Pty Ltd	Provide performance benchmarking of information technology services	30,030	Direct sourcing	C
Collective Resources	Provide IT Architecture development and project support for the Standard Business Reporting Program	275,616	Panel	A
Compas Pty Ltd	Provide IT Architecture development and project support for the Standard Business Reporting Program	375,840	Panel	A
Curriculum Corporation	Provide development of a professional learning package to teachers of consumer and financial literacy	207,937	Open tender	A
Cybertrust	Provide professional IT security services	77,800	Direct sourcing	B

Table 13: List of new consultancies over \$10,000 in 2007-08 (continued)

Consultant name	Description	Contract price \$	Selection process ⁽¹⁾	Justification ⁽²⁾
Cybertrust	Provide services for the Treasury I-RAP Gateway Certification	17,600	Direct sourcing	B
Cybertrust	Provide IT security services	55,000	Direct sourcing	A
Donald Cant Watts Corker (ACT) Pty Ltd	Provide cost planning and quantity surveying services for the technical design and construction of a new computer room	18,505	Select tender	B
Eclipse Group Pty Ltd	Provide scoping and design for financial planning space on the Understanding Money website	129,796	Open tender	B
Ernst and Young	Provide services to maintain and improve the integrated plan for the Standard Business Reporting Program	470,360	Open tender	B
Famous 5 Pty Ltd	Provide design services, writing and research to the First Home Saver Account disclosure project (Phase 2)	54,254	Select tender	B
F John Morgan, Barrister at Law	Provide services relating to the Tax Law Design Review Panel	15,000	Direct sourcing	B
Gartner Australasia Pty Ltd	Provide IT advisory relationship on standard industry practices	133,870	Direct sourcing	B
Graeme Pearman Consulting Pty Ltd	Provide report summarising the impacts and risks arising from climate change under emissions scenarios	22,000	Direct sourcing	B
Hugh Watson Consulting	Provide a review of the Treasury's support services	46,475	Select tender	C
KPMG	Provide internal audit services for the HIH Claims Support Scheme	275,550	Direct sourcing	A
McLennan Magasanik Associates	Provide services relating to the analysis of the electricity generation sector in Australia	132,000	Select tender	B
McLennan Magasanik Associates	Provide services relating to the supply of emissions response functions for the industrial processing, waste, non-electricity stationary energy and fugitive emissions sector	24,000	Direct sourcing	A
Monash University	Provide services for the catalogue of policy experience and choices website project	275,000	Direct sourcing	A
Monash University	Provide services relating to the modification of the Monash Multi Regional Forecasting model	151,400	Direct sourcing	A

Table 13: List of new consultancies over \$10,000 in 2007-08 (continued)

Consultant name	Description	Contract price \$	Selection process ⁽¹⁾	Justification ⁽²⁾
Monash University	Provide advice on the economics of taxation and public finance, and translating tax economic principles into tax law	300,000	Open tender	B
Mr Anthony Slater QC	Provide services advising the Board of Taxation of its review of taxation arrangements applying to Managed Investment Trusts	29,000	Select tender	B
People Bank	Provide IT Architecture development and project support to the Standard Business Reporting Program	374,400	Panel	A
Pricewaterhouse Coopers	Provide services relating to the Tax Law Design Review Panel	15,000	Direct sourcing	B
Property Mentor Pty Ltd	Provide advice on building and facilities management, leasing and property management issues	12,000	Direct sourcing	B
Richard Vann	Provide services to the Board of Taxation on its review of taxation arrangements applying to Managed Investment Trusts	30,000	Select tender	B
Rice Warner Actuaries Pty Ltd	Provide research and a report into legal and intended user requirements for a First Home Saver Account disclosure statement	40,300	Select tender	B
SMS Consulting Group Pty Ltd	Provide an IT operation capability review	46,200	Open tender	B
University of Canberra	Provide Social Policy Research Services by the National Centre for Social and Economic Modeling	140,472	Direct sourcing	C
Total consultancies over \$10,000		4,726,992		

Note: All amounts include GST.

(1) Explanation of selection process terms:

Open tender — public tenders are sought from the marketplace using national and major metropolitan newspaper advertising and the Australian AusTender internet site.

Select tender — tenders are invited from a short list of competent suppliers.

Direct sourcing — one supplier (or a limited number of suppliers) is approached directly in certain defined circumstances.

Panel — standing offers and supplier panels where the consultant offers to supply goods and services for a pre-determined length of time and usually at a pre-arranged price.

(2) Justification for decision to use consultancy:

A Skills currently unavailable within agency.

B Need for specialised or professional skills.

C Need for independent research or assessment.

WORKPLACE DIVERSITY

The Treasury, through its Workplace Diversity Program, is committed to fostering and valuing diversity in the workplace. The Treasury's people management policies, systems and programs are underpinned by Treasury Values which include respect, fairness and the valuing of diversity among its people.

At 30 June 2008, Treasury's staff included:

- 46 per cent women;
- 26 per cent born overseas;
- 9 per cent with English as a second language;
- 0.1 per cent who identify as being Aboriginal or a Torres Strait Islander; and
- 1.6 per cent who identify as having a disability (refer to Table 14 on page 153).

The number of employees identifying as being from an indigenous background remains low; however, the Treasury is currently reviewing its Reconciliation Action Plan to identify and implement recruitment strategies which may encourage broader interest from indigenous applicants. The Treasury continues to participate in indigenous graduate and cadet selection processes which are coordinated by the Australian Public Service Commission and offered one indigenous cadetship in 2007-08.

During the year, Treasury staff were invited to participate in a number of celebratory events to recognise and support diversity in the workplace. These events included International Women's Day, National Families Week and Australia's Biggest Morning Tea.

Strategies to support the wellbeing of Treasury staff are an integral part of the Treasury's commitment to workplace diversity. The Treasury offers flexible working arrangements and a family-friendly work environment. An increasing number of Treasury staff are accessing part-time work. At 30 June 2008, 89 ongoing employees worked part-time, including 6 at senior executive service level; this represents 10 per cent of all ongoing employees, compared with 9.5 per cent the previous year. In addition to part-time work, Treasury staff can access job-share arrangements and, in particular circumstances, may apply for home-based work.

The Treasury is accredited as a breastfeeding friendly workplace and a carer's room is provided to assist staff with parental or other caring responsibilities. A maternity pack, providing a range of information on maternity/parental leave provisions, child care and support networks has been developed to assist staff who are either planning on taking, or returning from, maternity or parental leave.

The Treasury's Mature Age Workers' Strategy provides flexible working arrangements to facilitate mature age workers continuing in the workforce and making the transition to retirement.

The Treasury continues to use an external service provider to assist staff with information on elder care, child care and care for dependants with disabilities.

A number of staff are trained to act as workplace harassment contact officers to assist employees who may require support. During 2007-08, the Treasury's policy on the *Prevention of Harassment and Bullying in the Workplace* was updated and a toolkit developed to assist the harassment contact officers in their role.

Table 14: Operative and paid inoperative staff by EEO target group

Classification	Female	Born overseas	ESL	ATSI	Disability
APS1	2	1	-	-	-
APS2	5	2	-	-	1
APS3	46	16	7	-	1
APS4	48	17	10	1	1
APS5	72	41	21	-	-
APS6	90	46	25	-	4
EL1	99	53	13	-	2
EL2	56	44	11	-	4
SES Band 1	16	15	2	-	2
SES Band 2	3	3	-	-	-
SES Band 3	-	2	-	-	-
Total	437	240	89	1	15

Disability Action Plan

The Treasury's Disability Action Plan was developed in consultation with staff and subsequently reviewed and updated in line with the Australian Government Disability Strategy and the *Disability Discrimination Act 1992*. The action plan will be reviewed in August 2008 as part of a review of Treasury's Workplace Diversity Program.

Assistance is provided for staff with special needs. Special equipment is purchased, such as voice recognition software, and individually tailored training is available. Staff with special needs can access tutoring in written communication and translators for hearing impaired staff.

Chart 1: Number of new entrant graduates

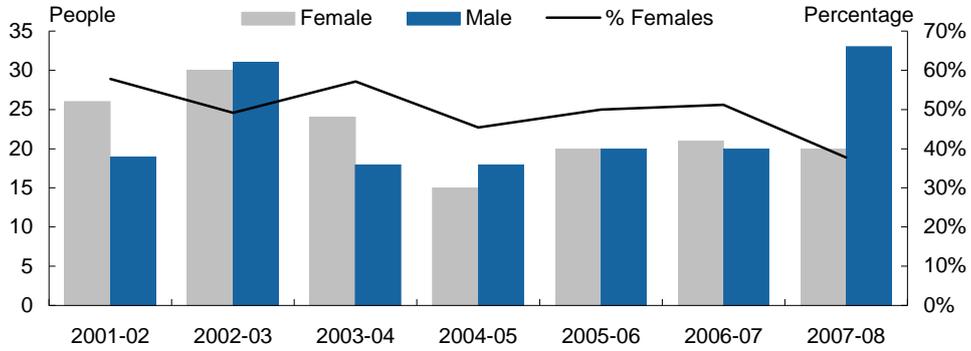


Chart 2: Number of SES staff

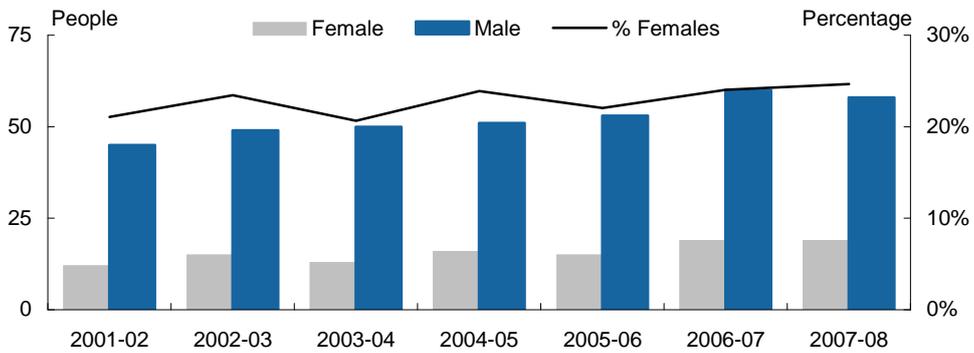


Chart 3: Treasury staff levels

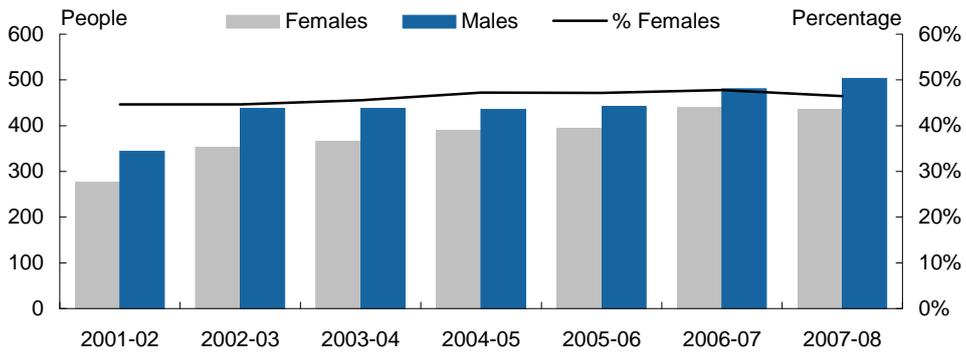


Table 15: Appointments of women to boards or equivalent of statutory and non-statutory bodies (as at 30 June 2008)

	Total positions filled as at 30 June	Number of women	Number of appointments made during the year	Number of appointments of women
Australian Accounting Standards Board	1	-	-	-
Australian Competition and Consumer Commission	11	3	4	1
Australian Competition Tribunal	15	2	-	-
Australian Energy Regulator	3	-	1	-
Australian Prudential Regulation Authority	3	-	-	-
Australian Reinsurance Pool Corporation	8	3	2	1
Australian Securities and Investments Commission	3	1	1	1
Australian Statistics Advisory Council	22	6	-	-
Auditing and Assurance Standards Board	1	1	1	1
Board of Taxation	10	-	-	-
Business Regulation Advisory Group	10	6	-	-
Commonwealth Consumer Advisory Council	13	4	-	-
Companies Auditors and Liquidators Disciplinary Board	14	-	7	-
Corporations and Markets Advisory Committee	10	5	-	-
Financial Literacy Foundation	10	4	-	-
Financial Reporting Council	19	4	1	-
Financial Reporting Panel	8	1	-	-
Financial Sector Advisory Council	13	2	7	2
Foreign Investment Review Board	3	1	-	-
HIH Claims Support Limited	4	1	-	-
Inspector-General of Taxation	1	-	-	-
Legal Sub-Committee of the Corporations and Markets Advisory Committee	10	5	-	-
Life Insurance and Actuarial Standards Board	7	-	4	-
National Competition Council	4	1	-	-
Payments System Board	8	2	1	1
Productivity Commission	12	3	2	-
Reserve Bank of Australia Board	9	1	-	-
Superannuation Complaints Tribunal	20	10	2	2
Takeovers Panel	54	19	19	6
Tax Agents' Board	18	1	-	-
Total	324	86	52	15

Note: The Life Insurance and Actuarial Standards Board was abolished on 1 January 2008.

Part 4:

Financial statements

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Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Scope

I have audited the accompanying financial statements of the Department of the Treasury for the year ended 30 June 2008, which comprise: a Statement by the Secretary and Chief Financial Officer; Income statement; Balance sheet; Statement of changes in equity; Cash flow statement; Schedules of commitments, contingencies and administered items; Summary of significant accounting policies; and other explanatory notes.

The Responsibility of the Secretary to the Treasury for the Financial Statements

The Secretary to the Treasury is responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and the Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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Email ian.mcphee@anao.gov.au

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Secretary to the Treasury, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

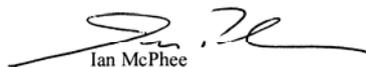
Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial statements of the Department of the Treasury:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, and the Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Department of the Treasury's financial position as at 30 June 2008 and its financial performance and its cash flows for the year then ended.



Ian McPhee

Auditor-General
Canberra

12 August 2008

THE TREASURY

STATEMENT BY THE DEPARTMENTAL SECRETARY AND CHIEF FINANCIAL OFFICER

Certification of financial statements

In our opinion, the attached financial statements for the year ended 30 June 2008 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.



Ken Henry
Secretary to the Treasury



Rob Donnelly
Chief Financial Officer

Income statement
for the period ended 30 June 2008

	Notes	2008 \$'000	2007 \$'000
INCOME			
Revenue			
Revenue from Government	3A	149,315	133,536
Sale of goods and rendering of services	3B	7,666	7,219
Other revenues	3C	824	1,011
Total revenue		157,805	141,766
Gains			
Sale of assets	3D	-	65
Other gains	3E	360	398
Total gains		360	463
TOTAL INCOME		158,165	142,229
EXPENSES			
Employee benefits	4A	101,143	96,159
Suppliers	4B	40,403	49,303
Grants	4C	4,625	3,732
Depreciation and amortisation	4D	3,344	3,270
Finance costs	4E	93	126
Write-down and impairment of assets	4F	47	49
Net losses from sale of assets	4G	20	-
TOTAL EXPENSES		149,675	152,639
SURPLUS/(DEFICIT)		8,490	(10,410)

This statement should be read in conjunction with the accompanying notes.

Balance sheet
as at 30 June 2008

	Notes	2008 \$'000	2007 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	6A	2,270	2,256
Trade and other receivables	6B	73,469	54,717
Total financial assets		75,739	56,973
Non-financial assets			
Land and buildings	7A	10,442	7,092
Plant and equipment	7B	7,067	7,870
Intangibles	7C	788	930
Other non-financial assets	7D	1,443	869
Total non-financial assets		19,740	16,761
TOTAL ASSETS		95,479	73,734
LIABILITIES			
Payables			
Suppliers	8A	2,789	1,568
Other payables	8B	4,098	3,973
Total payables		6,887	5,541
Interest bearing liabilities			
Leases	9	890	1,496
Total interest bearing liabilities		890	1,496
Provisions			
Employee provisions	10	34,696	32,791
Total provisions		34,696	32,791
TOTAL LIABILITIES		42,473	39,828
NET ASSETS		53,006	33,906
EQUITY			
Asset revaluation reserve		5,276	3,644
Contributed equity		12,939	3,961
Retained surplus		34,791	26,301
TOTAL EQUITY		53,006	33,906
Current assets		77,182	57,842
Non-current assets		18,297	15,892
Current liabilities		33,030	35,002
Non-current liabilities		9,443	4,826

This statement should be read in conjunction with the accompanying notes.

Statement of changes in equity as at 30 June 2008

	Retained earnings		Asset revaluation reserve		Contributed equity		Total equity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Opening balance as at 1 July	26,301	36,711	3,644	3,644	3,961	3,685	33,906	44,040
Income and expense								
Surplus/(Deficit) for the period	8,490	(10,410)	-	-	-	-	8,490	(10,410)
Net revaluation increment	-	-	1,632	-	-	-	1,632	-
Total income and expenses recognised directly in equity	8,490	(10,410)	1,632	-	-	-	10,122	(10,410)
Transactions with owners:								
Contributions by owners:								
Appropriations (equity injections)	-	-	-	-	8,978	276	8,978	276
Sub-total transactions with owners	-	-	-	-	8,978	276	8,978	276
Closing balance as at 30 June	34,791	26,301	5,276	3,644	12,939	3,961	53,006	33,906
Total equity attributable to the Australian Government	34,791	26,301	5,276	3,644	12,939	3,961	53,006	33,906

This statement should be read in conjunction with the accompanying notes.

Cash flow statement for the period ended 30 June 2008

	Notes	2008 \$'000	2007 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		9,149	8,106
Appropriations		132,002	138,787
GST received from ATO		2,817	3,543
Other cash received		1,653	1,859
Total cash received		145,621	152,295
Cash used			
Employees		100,278	93,067
Suppliers		43,267	52,668
Grants		4,625	3,732
Financing costs		93	126
GST paid to ATO		104	123
Cash to the OPA		1,422	-
Other cash used		6	102
Total cash used		149,795	149,818
Net cash from/(used by) operating activities	11	(4,174)	2,477
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of property, plant and equipment		35	110
Total cash received		35	110
Cash used			
Purchase of property, plant and equipment		3,829	1,405
Purchase of intangibles		208	571
Total cash used		4,037	1,976
Net cash from/(used by) investing activities		(4,002)	(1,866)
FINANCING ACTIVITIES			
Cash received			
Capital injections		8,978	276
Total cash received		8,978	276
Cash used			
Repayment of borrowings (includes finance lease principal)		788	738
Total cash used		788	738
Net cash from/(used by) financing activities		8,190	(462)
Net increase/decrease in cash held		14	149
Cash at the beginning of the reporting period		2,256	2,107
Cash at the end of the reporting period	6A	2,270	2,256

This statement should be read in conjunction with the accompanying notes.

Schedule of commitments

as at 30 June 2008

	2008 \$'000	2007 \$'000
BY TYPE		
Capital commitments		
Land and buildings	475	-
Total capital commitments	475	-
Other commitments		
Operating leases	58,810	65,838
Other	14,876	9,524
Total other commitments	73,686	75,362
Commitments receivable		
GST receivable	(6,556)	(6,610)
Total commitments receivable	(6,556)	(6,610)
NET COMMITMENTS	67,605	68,752
BY MATURITY		
Capital commitments		
One year or less	432	-
From one to five years	-	-
Over five years	-	-
Total capital commitments	432	-
Operating lease commitments		
One year or less	8,115	8,138
From one to five years	27,762	27,292
Over five years	17,734	24,656
Total operating lease commitments	53,611	60,086
Other commitments		
One year or less	9,557	6,400
From one to five years	4,005	2,226
Over five years	-	40
Total other commitments	13,562	8,666
NET COMMITMENTS BY MATURITY	67,605	68,752

This schedule should be read in conjunction with the accompanying notes.

Schedule of commitments (continued)

Note: Commitments are GST inclusive where relevant.

Operating leases included are effectively non-cancellable and comprise:

Nature of lease	General description of leasing arrangement
Leases for accommodation	<ul style="list-style-type: none"> ▪ Commercial — leases comprise various periods, including both initial and options periods. ▪ Overseas estate — some commercial lease payments are adjusted annually by 2 per cent and residential lease payments are reviewed bi-annually to reflect market movements. ▪ As at 30 June 2008, overseas rental agreements for offices had expired and new agreements had yet to be negotiated. ▪ The initial periods of office accommodation leases are still current and each may be renewed with options for a further three or five years. ▪ Australian estate — residential lease payments are reviewed bi-annually to reflect market movements.
Agreements for the provision of motor vehicles to Senior Executive Officers	<ul style="list-style-type: none"> ▪ No contingent rentals exist. ▪ No renewal or purchase options are available to the Treasury.
Leases for computer equipment and office equipment	<ul style="list-style-type: none"> ▪ The lessor provides all computer equipment designated as necessary in the supply contract for three years with an option to extend the term for a fixed period as agreed by both parties. ▪ The lessor provides all photocopier equipment designated as necessary in the supply contract for four years with an option to extend the term for a fixed period as agreed by both parties.

Other commitments include commitments for consultants, building services and other commitments.

Schedule of contingencies

as at 30 June 2008

	Claims for damages or costs					
	costs		Other		Total	
	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Contingent liabilities						
Balance from previous period	-	-	232	133	232	133
New	-	-	232	207	232	207
Obligations expired/crystallised	-	-	(209)	(108)	(209)	(108)
Total contingent liabilities	-	-	255	232	255	232
NET CONTINGENT LIABILITIES	-	-	255	232	255	232

This schedule should be read in conjunction with the accompanying notes.

Note: Departmental unquantifiable contingencies are disclosed in Note 12: Contingent liabilities and assets.

Schedule of administered items
for the period ended 30 June 2008

	Notes	2008 \$'000	2007 \$'000
Income administered			
on behalf of Government			
for the period ended 30 June 2008			
Non-taxation revenue			
Interest	17A	3,652	10,235
Dividends	17B	1,084,822	1,177,725
Sale of goods and rendering of services	17C	600,200	618,792
Other revenue	17D	68,980	66,257
Total revenues administered			
on behalf of Government		1,757,654	1,873,009
Gains			
Net foreign exchange gains	17E	67,519	-
Total gains administered			
on behalf of Government		67,519	-
Total income administered			
on behalf of Government		1,825,173	1,873,009
Expenses administered			
on behalf of Government			
for the period ended 30 June 2008			
Grants	18A	42,627,153	39,721,904
Interest	18B	28,738	35,779
Other expenses	18C	(203)	7
Losses			
Net foreign exchange losses	18D	-	197,948
Total expenses administered			
on behalf of Government		42,655,688	39,955,638

This schedule should be read in conjunction with the accompanying notes.

Schedule of administered items (continued)
as at 30 June 2008

	Notes	2008 \$'000	2007 \$'000
Assets administered			
on behalf of Government			
as at 30 June 2008			
Financial assets			
Cash and cash equivalents	19A	10,213	13,168
Receivables	19B	1,418	2,248
Investments	19C	17,273,877	16,546,830
Non-financial assets			
Other	19D	1,833	2,081
Total assets administered			
on behalf of Government		17,287,341	16,564,327
Liabilities administered			
on behalf of Government			
as at 30 June 2008			
Payables			
Loans	20A	3,881,382	3,888,624
Grants	20B	2,500	5,000
Other payables	20C	800,894	845,557
Provisions			
Other provisions	20D	144,793	190,132
Total provisions and payables		4,829,569	4,929,313
Total liabilities administered			
on behalf of Government		4,829,569	4,929,313
Net assets administered			
on behalf of Government		12,457,772	11,635,014

This schedule should be read in conjunction with the accompanying notes.

Administered cash flows
for the period ended 30 June 2008

	Notes	2008 \$'000	2007 \$'000
OPERATING ACTIVITIES			
Cash received			
GST administration fees		600,200	628,778
Interest		3,961	11,849
Dividends		1,084,822	1,477,259
Net GST received from ATO		703	965
HHH Group liquidation proceeds		55,271	43,646
Other		5,874	7,603
Total cash received		1,750,831	2,170,100
Cash used			
Grant payments		42,627,153	39,647,303
Other		70,350	90,675
Total cash used		42,697,503	39,737,978
Net cash from/(used in) operating activities		(40,946,672)	(37,567,878)
INVESTING ACTIVITIES			
Cash received			
IMF		312,875	319,395
Total cash received		312,875	319,395
Cash used			
Settlement of international financial institution's obligations		1,105	1,603
Total cash used		1,105	1,603
Net cash from/(used in) investing activities		311,770	317,792
Net increase/(decrease) in cash held		(40,634,902)	(37,250,086)
Cash at the beginning of reporting period		13,168	7,736
Cash from official public account for appropriations		42,695,095	39,744,635
Cash to official public account for appropriations		2,063,148	2,489,117
Cash at end of reporting period	19A	10,213	13,168

This schedule should be read in conjunction with the accompanying notes.

Administered commitments

as at 30 June 2008

	2008 \$'000	2007 \$'000
BY TYPE		
Other commitments		
Other ¹	289	396
Total other commitments	289	396
Commitments receivable		
GST receivable	(26)	(36)
Total commitments receivable	(26)	(36)
NET ADMINISTERED COMMITMENTS BY TYPE	263	360
BY MATURITY		
Other commitments		
One year or less	263	360
From one to five years	-	-
Total other commitments	263	360
NET ADMINISTERED COMMITMENTS BY MATURITY	263	360

This schedule should be read in conjunction with the accompanying notes.

Note: All commitments are GST inclusive where relevant.

1 Other commitments relates to services provided with respect to the HIH Claims Support Scheme.

Administered contingencies

as at 30 June 2008

	Guarantees		Indemnities		Uncalled shares or capital subscriptions ¹		Claims for damages or costs		Warranties		Letters of Comfort		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered contingent liabilities														
Balance from previous period	-	-	-	-	6,397,285	7,296,889	-	-	-	-	-	-	6,397,285	7,296,889
Re-measurement	-	-	-	-	(738,099)	(899,604)	-	-	-	-	-	-	(738,099)	(899,604)
Liabilities crystallised	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total contingent liabilities	-	-	-	-	5,659,186	6,397,285	-	-	-	-	-	-	5,659,186	6,397,285
Total contingent assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NET CONTINGENT LIABILITIES	-	-	-	-	5,659,186	6,397,285	-	-	-	-	-	-	5,659,186	6,397,285

This schedule should be read in conjunction with the accompanying notes.

Note: Administered unquantifiable contingencies are disclosed in Note 22: Administered contingent liabilities and assets.

¹ Comprises EBRD, IBRD, MIGA and ADB uncalled shares.

Statement of activities administered on behalf of Government

The major administered activities of the Treasury are directed towards achieving the four outcomes described in Note 1 to the Financial Statements. Details of planned activities for the year can be found in the Treasury Portfolio Budget Statements, Portfolio Additional Estimates Statements and Portfolio Supplementary Additional Estimates Statements for 2007-08, which were tabled in Parliament.

Notes to and forming part of the financial statements
for the period ended 30 June 2008

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Note 1: Summary of significant accounting policies

1.1. Objectives of the Treasury

The Treasury's mission is to improve the wellbeing of the Australian people by providing sound and timely advice to the Government, based on objective and thorough analysis of options, and by assisting Treasury Ministers in the administration of their responsibilities and the implementation of government decisions.

The Treasury is structured to meet four outcomes:

- Outcome 1: Sound macroeconomic environment;
- Outcome 2: Effective government spending arrangements;
- Outcome 3: Effective taxation and retirement income arrangements; and
- Outcome 4: Well functioning markets.

The reporting entity, hereafter referred to as 'the Treasury', comprises the Treasury and the Australian Government Actuary.

Activities contributing to the outcomes detailed above are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by the Treasury in its own right. Administered activities involve the management or oversight by the Treasury on behalf of the Government, of items controlled or incurred by the Government. For these purposes, the HIIH Claims Support Limited and the HIIH Scheme have been included in the administered schedules.

Departmental and administered activities are identified under four Output Groups. Outcome 1 has one output group, 1.1 Macroeconomic. Outcome 2 has one output group, 2.1 Fiscal. Outcome 3 has one output group, 3.1 Revenue and Outcome 4 has one output group, 4.1 Markets.

The output groups comprise the following outputs:

- Output Group 1.1 Macroeconomic — Outputs 1.1.1 and 1.1.2
- Output Group 2.1 Fiscal — Outputs 2.1.1, 2.1.2, 2.1.3 and 2.1.4
- Output Group 3.1 Revenue — Outputs 3.1.1 and 3.1.2
- Output Group 4.1 Markets — Outputs 4.1.1, 4.1.2, 4.1.3 and 4.1.4

All outputs under Output Groups 1.1, 2.1 and 3.1 provide services on a non-profit basis.

Under Output Group 4.1, Outputs 4.1.1, 4.1.2 and 4.1.3 also provide services on a non-profit basis. Output 4.1.4, relates to the Australian Government Actuary which operates via a special account.

The continued existence of the Treasury in its present form and with its present programs is dependent on Government policy and on continuing appropriations by Parliament for the Treasury's administration and programs.

1.2. Basis of preparation of the financial report

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2007; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial report has been prepared on an accrual basis and is in accordance with the historical cost convention, except for certain assets at fair value. The Treasury re-valued its assets during 2007-08 using an independent valuer, Preston Rowe Paterson NSW Pty Ltd.

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

Unless alternative treatment is specifically required by an accounting standard or the FMOs, assets and liabilities are recognised in the balance sheet when and only when it is probable that future economic benefits will flow to the Treasury or a future sacrifice of economic benefits will be required and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies (other than those that are unquantifiable, which are reported at Note 12 and Note 22 for administered items).

Unless alternative treatment is specifically required by an accounting standard or the FMOs, revenues and expenses are recognised in the income statement when and only when the flow, consumption or loss of economic benefits has occurred and can be reliably measured.

Administered revenues, expenses, assets, liabilities and cash flows reported in the Schedule of Administered Items and related notes are accounted for on the same basis and using the same policies as for departmental items, except where otherwise stated at Note 1.23.

1.3. Significant accounting judgments and estimates

Apart from an Australian Government Actuary review on employee benefits resulting in changes to on-cost calculations and discount factors, no accounting assumptions or estimates have been identified for departmental items that have a significant risk of

causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

In the process of applying the accounting policies for administered items listed in Notes 1.30 and 1.31, the Treasury has obtained independent actuarial assessments of the HIH Claims Support Scheme liability and the Housing Loans Insurance Corporation (HLIC) premiums, recoveries, claims and acquisition costs.

In relation to uncalled shares disclosed in the administered contingencies table, the Treasury has judged the risk of these shares being called as low for the foreseeable future. This judgment is based on historical and current performance of the international financial institutions. Some of the factors considered are the financial strength of the development banks (that is, most have AAA credit ratings), established risk management policies, healthy debt ratios, no adverse financial statement audit opinions and the fact that no calls have ever been made.

1.4. Statement of compliance

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. The following amendments, revised standards or interpretations have become effective but have had no financial impact or do not apply to the operations of the Treasury.

Amendments

- 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation 11
- 2007-4 Amendments to Australian Accounting Standards from ED 151 and Other Amendments and Erratum: Proportionate Consolidation
- 2007-7 Amendments to Australian Accounting Standards

Interpretations

- UIG 2 Member's Shares in Co-Operative Entities and Similar Instruments
- UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- UIG 6 Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment
- UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies
- UIG 8 Scope of AASB 2
- UIG 9 Reassessment of Embedded Derivatives

Part 4: Financial statements

- AASB Interpretation 11 AASB 2 — Group and Treasury Share Transactions
- AASB Interpretation 113 Jointly Controlled Entities — Non-Monetary Contributions by Venturers
- AASB Interpretation 1003 Australian Petroleum Rent Tax

Financial instrument disclosure

AASB 7 Financial Instruments: Disclosure is effective for reporting periods beginning on or after 1 January 2007 (the 2007-08 financial year) and amends the disclosure requirements for financial instruments. In general AASB 7 requires greater disclosure than that previously required. Associated with the introduction of AASB 7 a number of accounting standards were amended to reference the new standard or remove the present disclosure requirements through 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]. These changes have no financial impact but will affect the disclosure in future financial reports.

Other

The following standards and interpretations have been issued but are not applicable to the operations of the Treasury.

- AASB 1049 Whole-of-Government and General Government Sector Financial Reporting
- UIG 10 Interim Financial Reporting and Impairment

AASB 1049 specifies the reporting requirements for the Whole-of-Government and General Government Sector. The FMOs do not apply to this reporting or the consolidated financial statements of the Australian Government.

Future Australian Accounting Standard requirements

The following new standards, amendments to standards or interpretations have been issued by the AASB but are effective for future reporting periods. It is estimated that the impact of adopting the pronouncements when effective will have no material financial impact on future reporting periods.

Standards

- AASB 8 Operating Segments

Amendments

- 2007-3 Amendments to Australian Accounting Standards arising from AASB 8
- 2007-6 Amendments to Australian Accounting Standards arising from AASB 123
- 2008-2 Amendments to Australian Accounting Standards — Puttable Financial Instruments and Obligations arising on Liquidation [AASB 7, AASB 101, AASB 132, AASB 139 and Interpretation 2]

- 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 and 139 and Interpretations 9 and 107]

Interpretations

- AASB Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities
- UIG 4 Determining whether an Arrangement contains a Lease
- AASB Interpretation 12 Service Concession Arrangements
- AASB Interpretation 13 Customer Loyalty Programmes
- AASB Interpretation 14 AASB 119 — the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- AASB Interpretation 129 Service Concession Arrangements: Disclosures

1.5. Revenue

Revenues from Government

Amounts appropriated for departmental output appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue when the agency gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

Other types of revenue

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- the seller does not retain managerial involvement or effective control over the goods;
- the revenue and transaction costs incurred for the transaction can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- the probable economic benefits with the transaction will flow to the entity.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is no longer probable.

1.6. Gains

Resources received free of charge

Resources received free of charge are recognised as gains when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another government agency or authority as a consequence of a restructuring of administrative arrangements (refer to Note 1.7).

Resources received free of charge are recorded as either revenue or gains depending on their nature.

Other gains

Gains from disposal of non-current assets are recognised when control of the asset has passed to the buyer.

1.7. Transactions with the Government as owner

Equity injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) are recognised directly in contributed equity in that year.

Restructuring of administrative arrangements

Net assets received from, or relinquished to, another Australian Government agency or authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

Other distributions to owners

The FMOs require that distributions to owners be debited to contributed equity unless in the nature of a dividend.

1.8. Employee benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for short-term employee benefits (as defined by AASB 119) and termination benefits due within twelve months of balance date are measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Treasury is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the Treasury's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for both annual and long service leave has been determined by reference to the work of the Australian Government Actuary as at 30 June 2006. The Australian Government Actuary has confirmed that this work is still valid for the 2007-08 financial year, but will need to be reviewed again in 2008-09. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and general pay increase.

Separation and redundancy

No provision has been made for separation and redundancy benefit payments during the year (2007: nil).

Superannuation

Staff of the Treasury are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS) or the PSS accumulation plan (PSSap).

The CSS and PSS are defined benefit schemes of the Australian Government. The PSSap is a defined contribution scheme which opened for new employees on 1 July 2005.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported by the Department of Finance and Deregulation as an administered item.

The Treasury makes employer contributions to the employee superannuation scheme at rates determined by an actuary to be sufficient to meet the cost to the government of the superannuation entitlements of the Treasury's employees. The Treasury accounts for the contribution as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

1.9. Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at either the fair value of the lease property or, if lower, the present value of minimum lease payments at the inception of the contract and a liability is recognised at the same time and for the same amount.

The discount rate used is the interest rate implicit in the lease. Leased assets are amortised over the period of the lease. Lease payments are allocated between the principal component and the interest expense. At reporting date, the Treasury had finance leases with terms averaging three years and a maximum term of five years. The interest rate implicit in the leases averaged 7.11 per cent (2007: 7.31 per cent). The lease assets secure the lease liabilities.

Operating lease payments are expensed on a straight line basis which is representative of the pattern of benefits derived from the leased assets.

1.10. Borrowing costs

All borrowing costs are expensed as incurred.

1.11. Cash

Cash and cash equivalents includes notes and coins held and any deposits in bank accounts with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount. Any interest receivable is credited to revenue as it accrues. The Treasury maintains bank accounts with the Reserve Bank of Australia for administration of the receipt and payment of monies.

1.12. Financial risk management

The Treasury's activities expose it to normal commercial financial risk. As a result of the nature of the Treasury's business and internal and Australian Government policies, dealing with the management of financial risk, the Treasury's exposure to market, credit, liquidity, cash flow and fair value interest rate risk is considered to be low.

1.13. Other financial instruments

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance date. These are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest methods less impairment. Interest is usually recognised by applying the effective interest rate. Collectability of debts is reviewed regularly throughout the year and at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely. Credit terms are net 30 days (2007: 30 days).

Trade creditors

Trade creditors and accruals are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Settlement is usually made net 30 days.

Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the balance sheet but are reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which the amount cannot be reliably measured. Contingent assets are reported when settlement is probable but not virtually certain and contingent liabilities are recognised when settlement is greater than remote.

1.14. Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred. Financial liabilities are derecognised when the obligation under the contract is discharged, cancelled or expires.

1.15. Impairment of financial assets

Financial assets are assessed for impairment at each balance date.

Financial assets held at amortised cost

If there is objective evidence that an impairment loss has been incurred for loans and receivables or held to maturity investments held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the income statement.

Financial assets held at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because it cannot be reliably measured, or a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

Available for sale financial assets

If there is objective evidence that an impairment loss on an available for sale financial asset has been incurred, the amount of the difference between its cost, less principal repayments and amortisation, and its current fair value, less any impairment loss previously recognised in expenses, is transferred from equity to the income statement.

1.16. Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

1.17. Property, plant and equipment

Asset recognition threshold

Purchases of property, plant and equipment are recognised initially at cost in the balance sheet, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant and total \$20,000 or more).

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

Revaluations

Fair values for each class of asset are determined as shown below.

Asset class	Fair value measured at
Leasehold improvements	Depreciated replacement cost
Infrastructure, plant and equipment	Market selling price

Following initial recognition at cost, property, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from the assets' fair values as at the reporting date. The regularity of

independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through the income statement. Revaluation decrements for a class of assets are recognised directly through the income statement except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount, with the exception of leasehold improvements which are revalued using the gross method.

The Treasury performed a valuation of leasehold improvements, infrastructure, plant and equipment assets on 30 November 2007. The valuation was performed by independent valuers Preston Rowe Paterson NSW Pty Limited and was based on valuing the assets at fair value.

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Treasury using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2007-08	2006-07
Computers, plant and equipment	3-10 years	3-10 years
Leasehold improvements	5-10 years	5-10 years
Motor vehicles	4 years	4 years
Office equipment	5 years	5 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 4D.

1.18. Intangible assets

The Treasury's intangible assets comprise internally developed and purchased software for internal use. These assets are carried at cost less accumulated depreciation and any accumulated impairment losses.

Software is amortised on a straight line basis over its anticipated useful life. The useful lives of the Treasury's software are 3 to 5 years (2006-07: 3 to 5 years).

1.19. Impairment of non-current assets

All assets were assessed for impairment at 30 June 2008. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

No indicators of impairment were found for assets at fair value.

The non-current assets which are not held to generate net cash inflows, have been assessed for indications of impairment. Where indications of impairment exist, the asset is written down to the higher of its net selling price and if the entity would replace the asset's service potential, its depreciated replacement cost.

1.20. Taxation/competitive neutrality

The Treasury is exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST).

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recovered from the Australian Taxation Office; and
- except for receivables and payables.

1.21. Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables are translated at the exchange rates current as at balance date.

1.22. Insurance

The Treasury is insured for risks through the government's insurable risk managed fund, Comcover. Workers compensation is insured through the government's insurable risk managed fund, Comcare Australia.

1.23. Reporting of administered activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the schedule of administered items and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

1.24. Administered cash transfers to and from the Official Public Account

Revenue collected by the Treasury for use by the Australian Government rather than the Treasury is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Deregulation. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of the Australian Government. These transfers to and from the OPA are adjustments to the administered cash held by the Treasury on behalf of the Australian Government and reported as such in the statement of cash flows in the schedule of administered items and in the administered reconciliation table in Note 21. The Schedule of Administered Items largely reflects the Australian Government's transactions, through the Treasury, with parties outside the Australian Government.

Administered appropriations received or receivable from the OPA are not reported as administered revenues or assets respectively. Similarly, administered receipts transferred or transferable to the OPA are not reported as administered expenses or payables. These transactions or balances are internal to the administered entity.

1.25. Administered revenue

All administered revenues are revenues relating to the course of ordinary activities performed by the Treasury on behalf of the Australian Government.

Reserve Bank of Australia dividend

Dividends from the Reserve Bank of Australia (RBA) are recognised when a determination is made by the Treasurer and thus control of the income stream has been established. On this basis, the RBA's dividend for 2006-07 is recognised in the Treasury's financial statements in 2007-08. Dividends are measured at nominal amounts.

The Treasurer is able to determine what portion of the RBA's earnings is made available as a dividend to the Australian Government having regard to the Reserve Bank Board's advice and in accordance with section 30 of the *Reserve Bank Act 1959*.

International Monetary Fund remuneration

Remuneration is interest paid by the International Monetary Fund (IMF) to Australia for the use of its funds. It includes the proportion of the member currencies (quota) that was paid in Special Drawing Rights (SDR) and held by the IMF and money lent out under the financial transaction plan.

Where the IMF's holdings of Australian dollars fall below a specified level, it pays remuneration on Australia's average remunerated reserve tranche position. The rate of remuneration is equal to the SDR interest rate. This rate is then adjusted to account for the financial consequences of overdue obligations to the IMF which are shared between members and reflected in Note 17 as burden sharing.

Remuneration is calculated and paid at the end of the IMF's financial quarters. An annual adjustment maintenance of value is made to the IMF's holdings of the quota to maintain their value in terms of the SDR.

1.26. Administered capital

Appropriations of administered capital are recognised in administered equity where the amounts appropriated by Parliament are drawn down. For the purposes of the Treasury annual report, administered equity transactions are not disclosed separately.

1.27. Grants

The Treasury administers a number of grant schemes on behalf of the Australian Government.

Grant liabilities are recognised to the extent that (i) the services required to be performed by the grantee have been performed or (ii) the grant eligibility criteria have been satisfied, but payments due have not been made. A commitment is recorded when the Australian Government enters into an agreement to make these grants but services have not been performed or criteria satisfied.

Grants to the IMF

This represents Australia's contribution to the Poverty Reduction and Growth Facility (PRGF), previously known as the Enhanced Structural Adjustment Facility, of the IMF. The PRGF will enable the IMF to provide concessional funding to support medium term macroeconomic adjustment and structural reforms in low income countries. The PRGF will assist Australia to promote its international economic and aid interests with developing countries in the Asian region. Australia's contribution involves \$30 million to be paid in annual instalments of \$2.5 million over a 12 year period, with the final instalment due in 2008-09.

Grants to States and Territories

Payments under A New Tax System (Commonwealth-State Financial Arrangements) Act 1999

The outcome of the 1999 taxation reform process includes an arrangement which provides revenue to fund State and Territory government services. Special appropriations relating to this legislation fall under four categories, namely, GST Revenue Payments to the States and Territories, Budget Balancing Assistance Grants, Residual Adjustment Amounts and National Competition Policy Payments.

The introduction of *The New Tax System* on 1 July 2000 has significantly reformed payments made under Commonwealth-State financial relations. The Treasury has responsibility for administering these payments.

The largest payment is the provision of GST revenue. The Australian Government pays to the States and Territories all GST collected, and commenced monthly payments of GST revenue to the States and Territories in July 2000. GST revenue payments to the States and Territories in 2007-08 were distributed in accordance with relativities recommended by the Commonwealth Grants Commission and in compliance with the Tax Commissioner's determination of the total amount to be paid. The Treasury also administered General Revenue Assistance payments to the States and Territories consisting of Budget Balancing Assistance and Residual Adjustment Amounts in 2007-08. No payments were made during 2007-08.

National Competition Policy Payments to the States and Territories are conditional on the States and Territories meeting their obligations under the agreement to implement the National Competition Policy and related reforms. The 2007-08 payment was the final payment under the National Competition Policy arrangement.

As a consequence of the Australian Taxation Office collecting GST for distribution to the States and Territories, the States and Territories make payments to the Australian Government to meet the agreed costs incurred in administering the GST. The Treasury is responsible for collection of GST administration fees from the States and Territories.

A new First Home Owners Scheme commenced on 1 July 2000. Under the First Home Owners Scheme, a grant of \$7,000 is available to eligible applicants who are buying or building their first home. The First Home Owners Scheme is administered by the States on the basis of principles agreed to by all jurisdictions in the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*.

Other payments to the States and Territories

The Australian Government removed the current exemption of condensate from crude oil excise, with effect from 13 May 2008. The Australian Government will provide compensation to the Western Australian Government for the loss of its share of offshore petroleum royalty revenue as a result of the imposition of crude oil excise on condensate.

Mirror taxes collected by State Governments

On behalf of the States, the Australian Government imposes mirror taxes which replace State taxes in relation to Australian Government places that may be constitutionally invalid. Mirror taxes are collected and retained by the States, under the *Commonwealth Places (Mirror Taxes) Act 1998*. State governments bear the administration costs of collecting mirror taxes. Mirror taxes are disclosed at Note 26F.

1.28. Administered investments

Administered investments were assessed for impairment at 30 June 2008. No indicators of impairment were noted.

Development banks

Investments in development banks are classified as non-monetary assets and owing to their nature, these investments are not revalued. As such, these investments are recognised at historical cost where the information is available. Where historical cost records are not readily available, a notional cost has been established at 30 June 1993 by reference to the development banks' financial statements and exchange rates at that time.

Initial investments in the Asian Development Bank (prior to 1995), the International Finance Corporation (prior to 1991) and the International Bank for Reconstruction and Development (prior to 1988) have been recognised at notional cost. Any subsequent capital subscriptions to these development banks have been recognised at historical cost.

Investments in the European Bank for Reconstruction and Development and the Multilateral Investment Guarantee Agency are recognised at historical cost.

IMF

The quota is the current value in Australian dollars of Australia's subscription to the IMF.

The SDR allocation liability reflects the current value in Australian dollars of the Treasury's liability to repay to the IMF Australia's cumulative allocations of SDR. This is classified as 'other payables'.

Australian Government entities

Administered investments in controlled entities are not consolidated because their consolidation is relevant only at the whole-of-government level.

The Australian Government's investment in controlled entities and companies in the Treasury portfolio are measured at their fair value as at 30 June 2008. Fair value has been taken to be the net assets of the entities as at balance date. These entities are listed below:

- Reserve Bank of Australia;
- Australian Reinsurance Pool Corporation;
- Australian Accounting Standards Board; and
- Auditing and Assurance Standards Board.

1.29. Promissory notes

Promissory notes have been issued to the IMF, the European Bank for Reconstruction and Development, the International Bank for Reconstruction and Development, the Asian Development Bank and the Multilateral Investment Guarantee Agency.

Where promissory notes have been issued in foreign currencies, they are recorded at their nominal value by translating them at the spot rate at balance date. The promissory notes are non-interest bearing and relate to the undrawn paid-in capital subscriptions.

Foreign currency gains and losses are recognised where applicable.

1.30. Mortgage insurance policies written by the Housing Loans Insurance Corporation up to 12 December 1997

The Australian Government sold the Housing Loans Insurance Corporation (HLIC) on 12 December 1997. Under the terms and conditions of the sale the Australian Government retained ownership of all mortgage insurance policies written up to the time of the sale.

During the 2007-08 financial year the Treasury assumed direct management of the remaining portfolio of policies. The commercial bank accounts which had been maintained for the purposes of making claim payments arising from the portfolio were closed. Any future payments will be made through the Treasury financial system.

Accounting policies adopted are:

Premiums

Premiums comprise amounts charged to the policy holder or other insurer, excluding amounts collected on behalf of third parties, principally stamp duties. The earned portion of premiums received and receivable is recognised as revenue. Premiums are treated as earned from the date of attachment of risk.

Premiums received in respect of insured loans are apportioned over a number of years in accordance with an actuarial determination of the pattern of risk in relation to the loans. Premium amounts carried forward in this way are credited to 'provision for unearned premiums'.

Given the maturity of the portfolio, the provision for unearned premiums is now zero.

Recoveries

Claims incurred recoveries and a receivable for outstanding recoveries are recognised in respect of insurance policies. The asset (HLIC premiums receivable) has been recognised in Note 19, based on the estimated discounted future cash flows.

Claims

Claims incurred expenses and a liability for outstanding claims are recognised in respect of insurance policies. The liability covers claims incurred but not yet paid, incurred but not yet reported and the anticipated direct and indirect costs of settling those claims. The liability has been recognised based on the estimated discounted future cash flows. Given the maturity of the portfolio, the liability is now estimated to be significantly less than \$1 million.

Acquisition costs

A portion of acquisition costs relating to unearned premium revenue is deferred in recognition that it represents future benefits. Deferred acquisition costs are amortised on an actuarial basis over the reporting periods expected to benefit from the expenditure. Since the provision for unearned premium is now zero, the deferred acquisition cost asset is also now zero.

1.31. Provisions and contingent liabilities

HIH Claims Support Scheme liability

The HIH Claims Support Scheme (the scheme) was established by the Australian Government following the collapse of the HIH Group of companies in March 2001. The purpose of the scheme was to provide financial assistance to eligible HIH policy-holders affected by collapse of the group. Initial funding of \$640 million was provided by special appropriation through the *Appropriation (HIH Assistance) Act 2001*.

HIH Claims Support Limited (HCSL) was established by the Insurance Council of Australia as a not-for-profit company in May 2001 to manage claims made under the scheme and to operate the HIH Claims Support Trust on behalf of the Australian

Government. As the sole beneficiary of the trust the Australian Government is entitled to any residual balance of the trust.

Since 2001, a total of 10,900 claims have been granted eligibility for assistance. Each year an actuarial review of the claims portfolio is conducted to assess the development of claims reserves and to estimate the overall liability associated with the scheme portfolio. In 2006, approval was sought and obtained to increase the scheme appropriation to a total of \$861 million to meet the estimated cost of the scheme portfolio. This additional funding was provided through annual appropriations.

The Australian Government Actuary has continued to review the portfolio annually to reassess the estimated scheme liability in future years. The most recent review has indicated that the overall cost of the scheme is estimated to be \$792.9 million in undiscounted terms. This amount incorporates an allowance for future inflation and covers the expected cost of past and future claim payments and associated expenses of managing the scheme.

1.32. Administered financial instruments

AASB 139 requires financial instruments to be classified into one of four categories. The financial instruments specific to the Treasury's administered items are classified in three of the four categories as follows:

- loans and receivables (these are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market),
 - IMF related moneys receivable (measured at amortised cost using the effective interest rate method);
- available-for-sale financial assets,
 - investments in development banks (measured at cost),
 - IMF quota (measured at cost);
- financial liabilities,
 - SDR allocation (measured at amortised cost using the effective interest rate method),
 - promissory notes (measured at amortised cost using the effective interest rate method),
 - IMF related monies payable (measured at amortised cost using the effective interest rate method).

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Although a number of the Treasury's financial instruments are classified as 'available-for-sale', due to their unique nature they do not have a quoted market price in an active market and their fair value cannot be reliably measured at the reporting date. These items are valued at cost. The Treasury does not hold these instruments for the purposes of trading.

Promissory notes are financial liabilities that are required to be measured at amortised cost using the effective interest rate method. The contractual terms of the promissory notes are non-interest bearing making the effective interest rate zero. Therefore, the measurement would be the initial value less any repayments plus or minus movements in exchange rates as a result of translation on the balance date.

Administered financial instruments are accounted for in accordance with the accounting policies detailed above.

Administered financial instruments are disclosed at Note 24.

Note 2: Events occurring after reporting date

The RBA has calculated a dividend of \$1.403 billion in respect of its results for the year ended 30 June 2008 (\$1.085 billion in 2006-07). The Treasurer has ratified the payment in accordance with the recommendation of the RBA's Board of Directors. As a consequence, the Treasury will record this dividend income in its accounts for the year ended 30 June 2008 in accordance with its accounting policy (Note 1.25).

On 1 July 2008 the Australian Accounting Standards Board and Auditing and Assurance Standards Board became prescribed as agencies under the *Financial Management and Accountability Act 1997*. As such the Boards will cease to be recognised as administered investments in Australian Government entities in the Treasury financial statements from this date, however they will remain within the Treasury portfolio.

Note 3: Operating revenues

	2008	2007
	\$'000	\$'000
Note 3A: Revenue from Government		
Appropriations		
Departmental outputs	147,495	133,536
Revenues from prior year	1,820	-
Total revenue from Government	149,315	133,536
Note 3B: Sale of goods and rendering of services		
Provision of goods to:		
external entities	97	-
Rendering of services to:		
related entities	5,859	6,042
external entities	1,630	1,107
Operating lease rental	80	70
Total sale of goods and rendering of services	7,666	7,219
Note 3C: Other revenues		
Other	824	1,011
Total other revenues	824	1,011
Note 3D: Sale of assets		
Plant and equipment		
Proceeds from sale	-	84
Carrying value of assets sold	-	(19)
Net gain from sale of assets	-	65
Note 3E: Other gains		
Total other gains	360	398

Note 4: Operating expenses

	2008	2007
	\$'000	\$'000
Note 4A: Employee benefits		
Wages and salaries	73,580	68,155
Superannuation		
Defined benefit plan	13,034	14,315
Defined contribution plan	1,777	914
Leave and other entitlements	10,082	10,312
Separation and redundancies	46	11
Other	2,624	2,452
Total employee benefits	101,143	96,159
Note 4B: Suppliers		
Provision of goods from:		
related entities	160	144
external entities	2,192	2,022
Rendering of services from:		
related entities	5,153	1,947
external entities	24,270	36,950
Operating lease rentals ¹	8,235	7,904
Workers compensation premiums	393	336
Total supplier expenses	40,403	49,303
Note 4C: Grants		
Grants paid	4,625	3,732
Total grants	4,625	3,732
Note 4D: Depreciation and amortisation		
Depreciation		
Other plant and equipment	1,120	1,220
Buildings - leasehold improvements	949	839
Total depreciation	2,069	2,059
Amortisation		
Intangibles - computer software	432	454
Assets held under finance lease	843	757
Total amortisation	1,275	1,211
Total depreciation and amortisation	3,344	3,270
Note 4E: Finance costs		
Leases	93	126
Total finance costs	93	126
Note 4F: Write-down and impairment of assets		
Non-financial assets		
Plant and equipment	46	-
Intangibles	1	49
Total write-down and impairment of assets	47	49
Note 4G: Net losses from sale of assets		
Other plant and equipment		
Proceeds from disposal	(35)	-
Net book value of assets disposed	55	-
Net losses from disposal	20	-

1 These comprise minimum lease payments only.

Note 5: Business operations

The Australian Government Actuary operates via a special account and the balance of the special account is disclosed at Note 26G.

Note 6: Financial assets

	2008	2007
	\$'000	\$'000
Note 6A: Cash and cash equivalents		
Cash:		
Special accounts	588	1,667
Departmental (other than special accounts)	1,682	589
Total cash	2,270	2,256
Note 6B: Trade and other receivables		
Goods and services	2,865	3,147
Net GST receivable from the ATO	436	138
Appropriations receivable - undrawn	70,168	51,432
Total trade and other receivables (net)	73,469	54,717
All receivables are current assets		
Receivables (gross) are aged as follows:		
Not overdue	73,115	53,676
Overdue by:		
Less than 30 days	209	815
30 to 60 days	6	105
61 to 90 days	114	37
More than 90 days	25	84
Total receivables (gross)	73,469	54,717

Note 7: Non-financial assets

	2008	2007
	\$'000	\$'000
Note 7A: Land and buildings		
Leasehold improvements - fair value		
At fair value	17,117	11,716
Accumulated depreciation	(6,675)	(4,624)
Total leasehold improvements - fair value	10,442	7,092
Total land and buildings (non-current)	10,442	7,092
Note 7B: Plant and equipment		
Plant and equipment - fair value		
At fair value	6,992	9,374
Accumulated depreciation	(736)	(2,982)
Total plant and equipment - fair value	6,256	6,392
Plant and equipment under finance lease		
Under finance lease	2,294	2,617
Accumulated amortisation	(1,483)	(1,139)
Total plant and equipment under finance lease	811	1,478
Total plant and equipment (non-current)	7,067	7,870
Note 7C: Intangibles		
Computer software - fair value		
At fair value	2,997	3,300
Accumulated amortisation	(2,209)	(2,370)
Total computer software - fair value	788	930
Total intangibles (non-current)	788	930

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1.17.

Note 7: Non-financial assets (continued)

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2007-08)

	Buildings - leasehold improvements	Other plant and equipment	Computer software	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2007:				
Gross book value	11,716	11,991	3,300	27,007
Accumulated depreciation/amortisation	(4,624)	(4,121)	(2,370)	(11,115)
Net book value 1 July 2007	7,092	7,870	930	15,892
Additions				
By purchase	3,646	325	208	4,179
By finance lease	-	180	-	180
Net revaluation increment/(decrement)	1,405	227	-	1,632
Depreciation/amortisation expense	(949)	(1,963)	(432)	(3,344)
Recoverable amount write-downs	-	-	-	-
Disposals				
Other disposals	-	(172)	(2)	(174)
Transfers	(752)	600	84	(68)
As at 30 June 2008:				
Gross book value	17,117	9,286	2,997	29,400
Accumulated depreciation/amortisation	(6,675)	(2,219)	(2,209)	(11,103)
Net book value 30 June 2008	10,442	7,067	788	18,297

Table A: Reconciliation of the opening and closing balances of property, plant and equipment and intangibles (2006-07)

	Buildings - leasehold improvements	Other plant and equipment	Computer software	Total
	\$'000	\$'000	\$'000	\$'000
As at 1 July 2006:				
Gross book value	10,943	11,908	3,360	26,211
Accumulated depreciation/amortisation	(3,785)	(3,767)	(2,550)	(10,102)
Opening net book value	7,158	8,141	810	16,109
Additions				
By purchase	937	596	571	2,104
By finance lease	-	1,042	-	1,042
Depreciation/amortisation expense	(839)	(1,977)	(454)	(3,270)
Disposals				
From disposal of entities or operations (including restructuring)	-	-	-	-
Other disposals	-	(19)	(49)	(68)
Transfers	(164)	87	52	(25)
As at 30 June 2007:				
Gross book value	11,716	11,991	3,300	27,007
Accumulated depreciation/amortisation	(4,624)	(4,121)	(2,370)	(11,115)
Closing net book value	7,092	7,870	930	15,892

Note 7: Non-financial assets (continued)

Table B: Property, plant and equipment and intangibles held under finance lease (2007-08)

	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
As at 30 June 2008:				
Gross book value	-	2,294	-	2,294
Accumulated depreciation/amortisation	-	(1,483)	-	(1,483)
Closing Net book value	-	811	-	811
As at 30 June 2007:				
Gross book value	-	2,617	-	2,617
Accumulated depreciation/amortisation	-	(1,139)	-	(1,139)
Closing net book value	-	1,478	-	1,478

Table C: Property, plant and equipment and intangibles under construction (2007-08)

	Buildings - leasehold improvements \$'000	Other plant and equipment \$'000	Computer software \$'000	Total \$'000
As at 30 June 2008:				
Gross book value	2,963	-	-	2,963
As at 30 June 2007:				
Gross book value	470	-	-	470
		2008	2007	
		\$'000	\$'000	
Note 7D: Other non-financial assets				
Prepayments		1,443	869	
Total other non-financial assets		1,443	869	

Note: Other non-financial assets are current assets.

Note 8: Payables

	2008	2007
	\$'000	\$'007
Note 8A: Suppliers		
Trade creditors	2,789	1,568
Total supplier payables	2,789	1,568
All supplier payables are current liabilities		
Note 8B: Other payables		
Other creditors	3,118	2,907
Prepayments received/unearned revenue	980	1,066
Total other payables	4,098	3,973
Other payables are represented by:		
Current	4,091	3,956
Non-current	7	17
Total other payables	4,098	3,973

Note: Settlement is usually made net 30 days.

Note 9: Interest bearing liabilities

	2008	2007
	\$'000	\$'000
Note 9: Leases		
Finance leases:	890	1,496
Payable:		
Within one year		
Minimum lease payments	739	848
Deduct: future finance charges	(44)	(88)
Total leases payable within one year	695	760
In one to five years		
Minimum lease payments	202	773
Deduct: future finance charges	(7)	(37)
Total leases payable within one year to five years	195	736
Finance leases recognised on the balance sheet	890	1,496

Note: Finance leases exist in relation to certain major office equipment assets. The leases are non-cancellable and for fixed terms averaging three years, with a maximum of five years. The Treasury guarantees the residual values of all assets leased. There are no contingent rentals.

Note 10: Provisions

	2008	2007
	\$'000	\$'000
Note 10: Employee provisions		
Salaries and wages	886	555
Leave	33,517	31,868
Superannuation	176	228
Aggregate employee benefit liability	34,579	32,651
Other employee entitlements	117	140
Aggregate employee benefit liability and related on-costs	34,696	32,791
Current	25,455	28,718
Non-current	9,241	4,073

Note: All other entitlements are current liabilities.

The classification of current includes amounts for which there is not an unconditional right to defer settlement by one year, hence in the case of employee provisions the above classification does not represent the amount expected to be settled within one year of the reporting date. Employee provisions expected to be settled in twelve months from the reporting date is \$18,641,361 (2007: \$17,599,887), in excess of one year \$16,053,841 (2007: \$15,191,326).

Note 11: Cash flow reconciliation

	2008	2007
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per Balance Sheet to cash flow statement		
Report cash and cash equivalents as per		
Cash flow statement	2,270	2,256
Balance sheet	2,270	2,256
Reconciliation of operating result to net cash from operating activities		
Operating result	8,490	(10,410)
Depreciation/amortisation	3,344	3,270
Loss on disposal of non-current assets	20	-
Gain on disposal of non-current assets	-	(65)
Net write down of non-financial assets	47	49
(Increase)/decrease in net receivables	(18,752)	4,152
(Increase)/decrease in other non financial assets	(574)	940
Increase/(decrease) in provisions	1,905	3,500
Increase/(decrease) in other payables	125	1,107
Increase/(decrease) in supplier payables	1,221	(66)
Net cash from/(used by) operating activities	(4,174)	2,477

Note 12: Contingent liabilities and assets

Quantifiable contingencies

The schedule of contingencies reports liabilities in respect of other of \$254,606 (2007: \$232,385). The amount represents an estimate of the Treasury's liability in respect of studies assistance.

Unquantifiable contingencies

As at 30 June 2008, the Treasury had a number of legal claims against it. The Treasury has denied liability and is defending the claims. It is not possible to estimate the amounts of any eventual payments that may be required in relation to these claims.

The courts may award legal costs against the Treasury in the event it is unsuccessful in an action before the courts. Because of the uncertainty over the outcome of outstanding and pending court cases, duration of court cases and the legal costs of the opposing party, these costs cannot be reliably measured.

Discussions with the owner of the Treasury building are still continuing with regards to possible charges for additional property operating expenses, with amounts yet to be finalised.

Note 13: Executive remuneration

Total remuneration includes actual salary, all allowances, employer superannuation component, leave accrued during the period, vehicle costs and fringe benefits tax.

	2008	2007
The number of executives who received or were due to receive total remuneration of \$130,000 or more:		
\$130,000 to \$144,999	2	2
\$145,000 to \$159,999	1	4
\$160,000 to \$174,999	4	1
\$175,000 to \$189,999	11	4
\$190,000 to \$204,999	8	10
\$205,000 to \$219,999	10	11
\$220,000 to \$234,999	11	3
\$235,000 to \$249,999	10	9
\$250,000 to \$264,999	1	6
\$265,000 to \$279,999	1	4
\$280,000 to \$294,999	4	4
\$295,000 to \$309,999	3	2
\$310,000 to \$324,000	1	-
\$325,000 to \$339,999	1	-
\$340,000 to \$354,999	2	-
\$355,000 to \$369,999	-	1
\$370,000 to \$384,999	-	2
\$400,000 to \$414,999	-	1
\$415,000 to \$429,999	-	1
\$475,000 to \$489,999	1	-
\$505,000 to \$519,999	-	1
\$520,000 to \$534,999	1	-
	72	66
Aggregate amount of total remuneration of executives as shown above	\$17,843,622	\$15,796,219
Aggregate amount of separation and redundancy/termination benefit payments during the year to executives shown above	\$0	\$0

Note 14: Remuneration of auditors

	2008	2007
	\$'000	\$'000
Financial statement audit services are provided free of charge to the Treasury		
The fair value of the services provided was:		
The Treasury	320	320
Total	320	320

Note: The above amounts are exclusive of GST. No other services were provided by the Auditor-General.

Note 15: Average staffing levels

	2008	2007
The Treasury	903	854
Total	903	854

Note 16: Financial instruments

Note 16A: Categories of financial instruments

	2008	2007
	\$'000	\$'000
Financial assets		
Loans and receivables		
Cash and cash equivalents	2,270	2,256
Trade receivables	2,865	3,147
Carrying amount of financial assets	5,135	5,403
Financial liabilities		
Liabilities at amortised cost		
Finance leases	890	1,496
Payables - suppliers	2,789	1,568
Other payables	3,118	2,907
Carrying amount of financial liabilities	6,797	5,971

Note: Implicit interest rate on finance leases for 2008 is 7.11 per cent (2007: 7.31 per cent).

Note 16B: Net income and expense from financial liabilities

	2008	2007
	\$'000	\$'000
Liabilities at amortised cost		
Interest expense	(93)	(126)
Net gain/(loss) financial liabilities - at amortised cost	(93)	(126)
Net gain/(loss) from financial liabilities	(93)	(126)

Note 16: Financial instruments (continued)**Note 16C: Net fair values of financial assets and liabilities**

The net fair values of cash and non-interest bearing monetary financial assets approximate their carrying amounts.

The net fair values of the finance leases are based on discounted cash flows using current interest rates for liabilities with similar risk profiles. The Treasury enters into finance lease arrangements in relation to certain major office equipment assets. The leases are non-cancellable and for fixed terms averaging three years, with a maximum of five years. The Treasury guarantees the residual values of all assets leased and there are no contingent rentals.

The net fair values for trade creditors and other liabilities are approximated by their carrying amounts.

Note 16D: Credit risk exposures

The Treasury is exposed to minimal credit risk as loans and receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total amount of trade receivables (2008: \$2,864,668 and 2007: \$3,146,390). The Treasury has assessed the risk of default on payment as being minimal.

Other government agencies and staff members make up the majority of the Treasury's debtors. To aid the Treasury in managing its credit risk, internal policies and procedures guide employees on debt recovery techniques that are to be applied.

The Treasury holds no collateral to mitigate against credit risk.

Credit quality of financial instruments not past due or individually determined as impaired

	Not past due nor impaired 2008 \$'000	Not past due nor impaired 2007 \$'000	Past due or impaired 2008 \$'000	Past due or impaired 2007 \$'000
Loans and receivables				
Cash and cash equivalents	2,270	2,256	-	-
Trade receivables	2,511	2,106	354	1,041
Total	4,781	4,362	354	1,041

Note 16: Financial instruments (continued)

Note 16D: Credit risk exposures (continued)

Ageing of financial assets that are past due but not impaired for 2008

	0 to 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'000
Loans and receivables					
Trade receivables	209	6	114	25	354
Total	209	6	114	25	354

Ageing of financial assets that are past due but not impaired for 2007

	0 to 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'000
Loans and receivables					
Trade receivables	815	105	37	84	1,041
Total	815	105	37	84	1,041

Note 16E: Liquidity risk

The Treasury's financial liabilities are payables and finance leases. The exposure to liquidity risk is based on the notion that the Treasury will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to the appropriation funding mechanisms available to the Treasury and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

The Treasury is appropriated funding from the Australian Government. The Treasury manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, the Treasury has policies in place to ensure timely payments are made when due and has no past experience of default.

Note 16: Financial instruments (continued)

Note 16E: Liquidity risk (continued)

Maturity of financial liabilities

	On demand 2008 \$'000	Within 1 year 2008 \$'000	1 to 5 years 2008 \$'000	> 5 years 2008 \$'000	Total 2008 \$'000
Liabilities at amortised cost					
Finance leases	-	695	195	-	890
Payables - suppliers	-	2,789	-	-	2,789
Other payables	-	3,111	7	-	3,118
Total	-	6,595	202	-	6,797
	On demand 2007 \$'000	Within 1 year 2007 \$'000	1 to 5 years 2007 \$'000	> 5 years 2007 \$'000	Total 2007 \$'000
Liabilities at amortised cost					
Finance leases	-	760	736	-	1,496
Payables - suppliers	-	1,568	-	-	1,568
Other payables	-	2,890	17	-	2,907
Total	-	5,218	753	-	5,971

Note 16F: Market risk

The Treasury holds only basic financial instruments that do not expose it to certain market risks.

The only interest-bearing items on the balance sheet are finance leases. All finance leases entered into bear interest at a fixed interest rate and do not fluctuate due to changes in the market interest rate. Current implicit interest rate is 7.11 per cent (2007: 7.31 per cent).

Note 17: Income administered on behalf of Government

	2008	2007
	\$'000	\$'000
Non-taxation revenue		
Note 17A: Interest		
Gross IMF remuneration	3,562	10,540
Less: Burden sharing	(158)	(530)
Add: Burden sharing refunds	-	-
Net IMF remuneration	3,404	10,010
Other interest	248	225
Total interest	3,652	10,235
Note 17B: Dividends		
Reserve Bank of Australia	1,084,822	1,177,725
Total dividends	1,084,822	1,177,725
Note 17C: Sale of goods and rendering of services		
GST administration fees - external entities	600,200	618,792
Total sale of goods and rendering of services	600,200	618,792
Note 17D: Other revenues		
Write back of HCS Scheme	8,318	16,503
HIH Group liquidation proceeds	55,271	43,646
Other revenues	5,391	6,108
Total other revenues	68,980	66,257
Total revenues administered on behalf of Government	1,757,654	1,873,009
Gains		
Note 17E: Net foreign exchange gains/(losses)		
IMF SDR allocation	42,786	-
IMF maintenance of value	312,875	-
IMF quota revaluation	(294,279)	-
Other	6,137	-
Total net foreign exchange gains/(losses)	67,519	-
Total gains administered on behalf of Government	67,519	-
Total income administered on behalf of Government	1,825,173	1,873,009

Note 18: Expenses administered on behalf of Government

	2008	2007
	\$'000	\$'000
Note 18A: Grants		
Grants to State and Territory governments	42,627,153	39,722,230
Other grants	-	(326)
Total grants	42,627,153	39,721,904
Note 18B: Interest		
IMF charges	28,738	35,779
Total Interest	28,738	35,779
Note 18C: Other expenses		
HLIC claims ¹	(203)	7
Total other expenses	(203)	7
Losses		
Note 18D: Net foreign exchange losses/(gains)		
IMF SDR allocation	-	(89,320)
IMF maintenance of value	-	(319,395)
IMF quota	-	614,342
Other	-	(7,679)
Total net foreign exchange losses/(gains)	-	197,948
Total losses administered on behalf of Government	-	197,948
Total expenses administered on behalf of Government	42,655,688	39,955,638

1 HLIC claims expenses includes an actuarial adjustment decreasing provision for insurance claims resulting in an offsetting negative expense.

Note 19: Assets administered on behalf of Government

	2008	2007
	\$'000	\$'000
Financial assets		
Note 19A: Cash and cash equivalents		
Administered bank accounts - The Treasury	10,213	13,168
Note 19B: Receivables		
Net GST receivable from the ATO	62	82
HLIC premiums receivable	747	1,249
IMF related moneys owing	596	904
Other receivables	13	13
Total receivables	1,418	2,248
Receivables are aged as follows:		
Current	1,418	2,248
Total receivables	1,418	2,248
Note 19C: Investments		
International financial institutions		
Asian Development Bank	287,069	287,069
European Bank for Reconstruction and Development	84,824	84,824
International Finance Corporation	69,144	69,144
International Bank for Reconstruction and Development	259,049	259,049
Multilateral Investment Guarantee Agency	10,694	10,694
Total international financial institutions	710,780	710,780
Quota		
International Monetary Fund	5,479,851	5,774,130
Australian Government entities		
Reserve Bank of Australia	10,622,643	9,664,000
Australian Securities and Investments Commission	-	29,999
Corporations and Markets Advisory Committee	-	102
Australian Reinsurance Pool Corporation	456,703	331,995
Australian Prudential Regulation Authority	-	32,656
Australian Accounting Standards Board	3,257	2,590
Auditing and Assurance Standards Board	643	578
Total Australian Government entities	11,083,246	10,061,920
Total investments	17,273,877	16,546,830
Non-financial assets		
Note 19D: Other		
Deferred acquisition costs	-	6
Prepayments	1,833	2,075
Total other	1,833	2,081
Total non-financial assets	1,833	2,081
Total assets administered on behalf of Government	17,287,341	16,564,327

From 1 July 2007 ASIC, CAMAC and APRA began operating under the FMA Act, hence the net asset position of these agencies was removed from Treasury's financial statements.

Note 20: Liabilities administered on behalf of Government

	2008	2007
	\$'000	\$'000
Note 20A: Loans		
IMF promissory notes	3,834,696	3,834,696
Other promissory notes	46,686	53,928
Total loans	3,881,382	3,888,624
Maturity schedule for loans is as follows:		
Payable: Within one year	554	1,070
In one to two years	-	535
In two to five years	-	-
In more than five years	3,880,828	3,887,019
Total loans	3,881,382	3,888,624
Note 20B: Grants		
IMF - poverty reduction and growth facility	2,500	5,000
Maturity schedule for grants is as follows:		
Payable: Within one year	2,500	2,500
In one to two years	-	2,500
In two to five years	-	-
In more than five years	-	-
Total grants	2,500	5,000
Note 20C: Other payables		
GST appropriation payable	62	82
IMF SDR allocation	796,724	839,509
IMF related moneys owing	3,929	5,921
Other	179	45
Total other payables	800,894	845,557
Note 20D: Other provisions		
Provision for insurance claims	385	680
Provision for unearned premiums	-	55
Provision for HCS Scheme	144,408	189,397
Total other provisions	144,793	190,132
Total liabilities administered on behalf of Government	4,829,569	4,929,313

Note 21: Administered reconciliation table

		2008	2007
	Notes	\$'000	\$'000
Opening administered assets less administered liabilities at 1 July		11,635,014	15,334,846
Plus administered revenues	17	1,825,173	1,873,009
Less administered expenses	18	(42,655,688)	(39,955,638)
Administered transfers to/from Australian Government			
Appropriation transfers from OPA:			
Annual appropriations administered expenses		254,002	170,586
Administered assets and liabilities appropriations		26,098	4,103
Special appropriations (limited)		11,016	55,658
Special appropriations (unlimited)		42,403,925	39,514,280
Refunds of receipts (s28 FMA)		54	8
Transfers to OPA		(2,063,148)	(2,489,117)
Administered investments - gains/(losses)		1,021,326	(2,872,721)
Closing administered assets less administered liabilities as at 30 June		12,457,772	11,635,014

Note 22: Administered contingent liabilities and assets

Quantifiable administered contingencies

Quantifiable administered contingencies that are not remote are disclosed in the schedule of administered items as quantifiable administered contingencies.

Unquantifiable administered contingencies

Contingent Loss

Terrorism insurance — Australian Reinsurance Pool Corporation

The *Terrorism Insurance Act 2003* established a scheme for replacement terrorism insurance covering damage to commercial property including associated business interruption and public liability. The Australian Reinsurance Pool Corporation (ARPC) uses reinsurance premiums paid by insurers to meet its administrative expenses and to build a fund and purchase reinsurance to help meet future claims. The Australian Government guarantees to pay any liabilities of the ARPC, but the Treasurer must declare a reduced payout rate to insured parties if the Australian Government's liability would otherwise exceed \$10 billion.

Contingent gain

HIH Claims Support Scheme

As the beneficiary of the HIH Claims Support Trust, the Australian Government is entitled to the residual balance of the Trust, after the collection of recoveries. Due to the inherent uncertainty of future recoveries, it is not possible to quantify these amounts accurately. During 2007-08 the Treasury received distributions from the Trust, however the amount and timing of future recoveries and subsequent distributions are unknown.

IMF

Since 1986, the IMF has used its burden sharing mechanism to make up for the loss of income from unpaid interest charges on the loans of debtor members and to accumulate precautionary balances in a Special Contingent Account to guard against the ultimate failure of debtor members to settle their overdue principal obligations to the IMF.

The mechanism works by providing for additions to the rate of charge on IMF loans and deductions to the rate of remuneration for creditor members such as Australia. Resources collected from individual members under the burden sharing mechanism are refundable to them as arrears cases are resolved, or as may be decided by the IMF. Thus, resources collected for unpaid charges are refunded when these charges are eventually settled. Likewise, precautionary balances held in the Special Contingent Account would be distributed back to members in proportion to their cumulative contributions when there are no overdue charges or principal balances. The IMF could also decide to make an early distribution.

As there is considerable and inherent uncertainty around the timing and amounts of burden sharing to be refunded to Australia this contingent asset cannot be reliably measured and as such is recorded as an unquantifiable contingent asset.

Note 23: Administered investment

The principal activities of each of the Treasury's administered investments are as follows.

Development Banks

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to assist post-communist, democratic, Eastern European Countries develop their private sector and capital markets. It provides project financing for banks, industries and businesses, both new ventures and investments in existing companies. It also works with publicly owned companies, to support privatisation, restructuring state-owned firms and improvement of municipal services. The EBRD uses its close relationship with governments in the region to promote policies that will bolster the business environment.

At the time of preparation of these financial statements the Australian Government was in the process of withdrawing its membership from the EBRD. Australia's withdrawal reflects the Australian Government's view that the EBRD has largely met its transition mandate, reflected in the accession to the European Union of ten of the EBRD's major clients and the graduation of most of them from the EBRD by 2010.

The Asian Development Bank (ADB) was established in 1966 and has a mandate to reduce poverty and promote general development in its developing member countries. The ADB does this by financing (through a mix of loans, grants, guarantees and co-financing activities with both other donors and the private sector) public sector and private sector activities. It also provides technical assistance to developing member countries so they can improve their policy and business investment environments. A significant portion of the ADB's activities are focused in the infrastructure and energy sectors.

The World Bank was established in 1944 and comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The IBRD provides financing and technical assistance to Middle Income Countries and lends on harder terms than the International Development Association, which provides concessionary finance and technical assistance to low income countries. The IFC supports the development of the private sector by providing direct finance to private sector operations. MIGA provides guarantee services for projects, which reduce the risks for other co-financing partners including the private sector.

IMF

The IMF is an organisation of 185 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty. It undertakes surveillance and annual economic assessments, provides technical assistance to developing countries and provides short term loans to countries experiencing currency and financial crisis.

Australian Government entities

The Australian Government's investment in controlled entities and companies in the Treasury portfolio are measured at their fair value. Fair value has been taken to be the net assets of the entities as at balance date.

Note 24: Administered financial instruments

Note 24A: Categories of financial instruments

	2008	2007
	\$'000	\$'000
Financial assets		
Loans and receivables		
Cash and cash equivalents	10,213	13,168
IMF related moneys owing	596	904
Other receivable	760	1,262
	11,569	15,334
Available for sale financial assets		
International financial institutions	710,780	710,780
Quota	5,479,851	5,774,130
	6,190,631	6,484,910
Carrying amount of financial assets	6,202,200	6,500,244
Financial liabilities		
At amortised cost		
Promissory notes	3,881,382	3,888,624
Grant liabilities	2,500	5,000
IMF allocation liability	796,724	839,509
Other payables	4,108	5,966
Other liabilities	144,793	190,132
	4,829,507	4,929,231
Carrying amount of financial liabilities	4,829,507	4,929,231

1 AASB 7 does not require the disclosure of statutory financial instruments, hence the comparative has been change to remove the GST payable.

Note 24B: Net income and expenses from financial assets

	2008	2007
	\$'000	\$'000
Loans and receivables		
Interest revenue	248	225
Net gain/(loss) loans and receivables	248	225
Available for sale financial assets		
Interest revenue	3,404	10,010
Exchange gain / (loss)	18,596	(294,947)
Net gain/(loss) available for sale financial assets	22,000	(284,937)
Net gain/(loss) from financial assets	22,248	(284,712)

Note 24C: Net income and expenses from financial liabilities

	2008	2007
	\$'000	\$'000
Financial liabilities - at amortised cost		
IMF Charges	(28,738)	(35,779)
Exchange gain/(loss)	48,923	96,999
Net gain/(loss) financial liabilities - at amortised cost	20,185	61,220
Net gain/(loss) from financial liabilities	20,185	61,220

Note 24: Administered financial instruments (continued)

Note 24D: Net fair value of financial assets and liabilities

The net fair values of the Treasury's administered financial instruments are equal to the carrying amount and are not required to be disclosed in a separate table.

Note 24E: Credit risk exposure

The maximum exposure to credit risk of the Treasury's administered financial assets is the carrying amount of 'loans and receivables' (2008: \$11,569,000 and 2007: \$15,334,000) and the carrying amount of 'available for sale financial assets' (2008: \$6,190,631,000 and 2007: \$6,484,910,000). However the entities that the Treasury holds its financial assets with hold a minimum of AA credit ratings, therefore the Treasury does not consider any of its financial assets to be at risk of default.

Note 24: Administered financial instruments (continued)**Note 24F: Liquidity risk**

The Treasury's administered financial liabilities are promissory notes, grant liabilities, the IMF SDR allocation, HIH and HLIC provisions. The exposure to liquidity risk is based on the notion that the Treasury will encounter difficulty in meeting its obligations associated with administered financial liabilities. This is highly unlikely due to appropriation funding through special appropriations and non-lapsing capital appropriations as well as internal policies and procedures put in place to ensure there are appropriate resources for the Treasury to meet its financial obligations.

The following tables illustrate the maturities for financial liabilities:

	On demand	Within 1 year	1 to 5 years	> 5 years	Total
	2008	2008	2008	2008	2008
	\$'000	\$'000	\$'000	\$'000	\$'000
Promissory notes	-	554	-	3,880,828	3,881,382
Grant Liabilities	-	2,500	-	-	2,500
IMF allocation liability	-	-	-	796,724	796,724
Other payables	4,108	-	-	-	4,108
Other liabilities	144,793	-	-	-	144,793
Total	148,901	3,054	-	4,677,552	4,829,507

	On demand	Within 1 year	1 to 5 years	> 5 years	Total
	2007	2007	2007	2007	2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Promissory notes	-	1,070	535	3,887,019	3,888,624
Grant Liabilities	-	2,500	2,500	-	5,000
IMF allocation liability	-	-	-	839,509	839,509
Other payables	5,966	-	-	-	5,966
Other liabilities	190,132	-	-	-	190,132
Total	196,098	3,570	3,035	4,726,528	4,929,231

Note 24: Administered financial instruments (continued)**Note 24G: Market risk**

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Treasury is exposed to foreign exchange currency risk primarily through undertaking certain transactions denominated in foreign currency.

The Treasury is exposed to foreign currency denominated in USD, EUR and SDR.

The following table details the effect on the profit and equity as at 30 June 2008 from a 10 per cent favourable/unfavourable change in AUD against the USD, EUR and SDR with all other variables held constant.

Risk Variable	Change in risk variable %	Effect on	
		Profit and loss	Equity
		2008 \$'000	2008 \$'000
IMF related moneys owing	10.00	(54)	(54)
IMF related moneys owing	-10.00	66	66
Quota	10.00	(498,168)	(498,168)
Quota	-10.00	608,872	608,872
Promissory notes	10.00	4,244	4,244
Promissory notes	-10.00	(5,187)	(5,187)
IMF allocation liability	10.00	72,429	72,429
IMF allocation liability	-10.00	(88,525)	(88,525)
Other liabilities	10.00	357	357
Other liabilities	-10.00	(437)	(437)

Risk Variable	Change in risk variable %	Effect on	
		Profit and loss	Equity
		2007 \$'000	2007 \$'000
IMF related moneys owing	10.00	(82)	(82)
IMF related moneys owing	-10.00	100	100
Quota	10.00	(524,921)	(524,921)
Quota	-10.00	641,570	641,570
Promissory notes	10.00	4,903	4,903
Promissory notes	-10.00	(5,992)	(5,992)
IMF allocation liability	10.00	76,319	76,319
IMF allocation liability	-10.00	(93,279)	(93,279)
Other liabilities	10.00	538	538
Other liabilities	-10.00	(658)	(658)

Shares in international financial institutions are valued at cost and as such their fair value is not altered by exchange rates.

Note 24: Administered financial instruments (continued)

The sensitivity analysis of the Treasury's exposure to foreign currency risk at the reporting date has been determined based on the Department of Finance and Deregulation's calculated average of the five main currencies for which the Australian Government is exposed. USD, EUR, GBP, JPY and NZD. For each of the five currencies an average of the past five years annual standard deviation is used, then calculated from observed daily movement of the AUD. Three standard deviations were selected as a 'reasonably' possible change as it accommodates for 99 per cent of the variation in the movement of historical foreign exchange rates.

Note 25: Administered consolidation

	Treasury		HCS Scheme		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
REVENUE:						
Non-taxation revenue						
Interest						
Gross IMF remuneration	3,562	10,540	-	-	3,562	10,540
Less: Burden sharing	(158)	(530)	-	-	(158)	(530)
Add: Burden sharing refunds	-	-	-	-	-	-
Net IMF remuneration	3,404	10,010	-	-	3,404	10,010
Other interest	13	23	235	202	248	225
Total interest	3,417	10,033	235	202	3,652	10,235
Dividends						
Reserve Bank of Australia	1,084,822	1,177,725	-	-	1,084,822	1,177,725
Total dividends	1,084,822	1,177,725	-	-	1,084,822	1,177,725
Sale of goods and rendering of services						
GST administration fees						
- external entities	600,200	618,792	-	-	600,200	618,792
Total sale of goods and rendering of services	600,200	618,792	-	-	600,200	618,792
Other revenues						
Write back of HCS scheme	8,318	16,503	-	-	8,318	16,503
HIH group liquidation proceeds	55,271	43,646	-	-	55,271	43,646
Other revenues	5,391	6,108	-	-	5,391	6,108
Total other revenues	68,980	66,257	-	-	68,980	66,257
Total revenues administered on behalf of Government	1,757,419	1,872,807	235	202	1,757,654	1,873,009

Note 25: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Gains						
Net foreign exchange gains/(losses)						
IMF SDR allocation	42,786	-	-	-	42,786	-
IMF maintenance of value	312,875	-	-	-	312,875	-
IMF quota revaluation	(294,279)	-	-	-	(294,279)	-
Other foreign exchange	6,137	-	-	-	6,137	-
Total net foreign exchange gains/(losses)	67,519	-	-	-	67,519	-
Total gains administered on behalf of Government	67,519	-	-	-	67,519	-
Total income administered on behalf of Government	1,824,938	1,872,807	235	202	1,825,173	1,873,009

Note 25: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
EXPENSES:						
Grants						
Grants to State and Territory governments	42,627,153	39,722,230	-	-	42,627,153	39,722,230
Other grants	-	(326)	-	-	-	(326)
Total grants	42,627,153	39,721,904	-	-	42,627,153	39,721,904
Interest						
IMF charges	28,738	35,779	-	-	28,738	35,779
Total interest	28,738	35,779	-	-	28,738	35,779
Other expenses						
HLIC claims	(203)	7	-	-	(203)	7
HCS Scheme claims	-	-	-	-	-	-
Total other expenses	(203)	7	-	-	(203)	7
Losses						
Net foreign exchange losses/(gains)						
IMF SDR allocation	-	(89,320)	-	-	-	(89,320)
IMF maintenance of value	-	(319,395)	-	-	-	(319,395)
IMF quota revaluation	-	614,342	-	-	-	614,342
Other	-	(7,679)	-	-	-	(7,679)
Total net foreign exchange losses/(gains)	-	197,948	-	-	-	197,948
Total losses administered on behalf of Government	-	197,948	-	-	-	197,948
Total expenses administered on behalf of Government	42,655,688	39,955,638	-	-	42,655,688	39,955,638

Note 25: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
ASSETS:						
Financial assets						
Cash and cash equivalents						
Administered bank accounts						
- Department of the Treasury	6,034	9,183	4,179	3,985	10,213	13,168
Receivables						
Net GST receivable						
from the ATO	62	82	-	-	62	82
HLIC premiums receivable	747	1,249	-	-	747	1,249
IMF related moneys owing	596	904	-	-	596	904
Other receivables	-	-	13	13	13	13
Total receivables (net)	1,405	2,235	13	13	1,418	2,248
Investments						
International financial institutions						
Asian Development Bank	287,069	287,069	-	-	287,069	287,069
European Bank for						
Reconstruction and Development	84,824	84,824	-	-	84,824	84,824
International Finance Corporation	69,144	69,144	-	-	69,144	69,144
International Bank for						
Reconstruction and Development	259,049	259,049	-	-	259,049	259,049
Multilateral Investment						
Guarantee Agency	10,694	10,694	-	-	10,694	10,694
Total international financial institutions	710,780	710,780	-	-	710,780	710,780
Quota						
International Monetary Fund	5,479,851	5,774,130	-	-	5,479,851	5,774,130

Note 25: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Australian Government entities						
Reserve Bank of Australia	10,622,643	9,664,000	-	-	10,622,643	9,664,000
Australian Securities and Investments Commission	-	29,999	-	-	-	29,999
Corporations and Markets Advisory Committee	-	102	-	-	-	102
Australian Reinsurance Pool Corporation	456,703	331,995	-	-	456,703	331,995
Australian Prudential Regulation Authority	-	32,656	-	-	-	32,656
Australian Accounting Standards Board	3,257	2,590	-	-	3,257	2,590
Auditing and Assurance Standards Board	643	578	-	-	643	578
Total Australian Government entities	11,083,246	10,061,920	-	-	11,083,246	10,061,920
Total investments	17,273,877	16,546,830	-	-	17,273,877	16,546,830
Non-financial assets						
Deferred acquisition costs	-	6	-	-	-	6
Other prepayments	3,271	3,509	(1,438)	(1,434)	1,833	2,075
Total non-financial assets	3,271	3,515	(1,438)	(1,434)	1,833	2,081
Total assets administered on behalf of Government	17,284,587	16,561,763	2,754	2,564	17,287,341	16,564,327

Note 25: Administered consolidation (continued)

	Treasury		HCS Scheme		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
LIABILITIES:						
Loans						
IMF promissory notes	3,834,696	3,834,696	-	-	3,834,696	3,834,696
Other promissory notes	46,686	53,928	-	-	46,686	53,928
Total loans	3,881,382	3,888,624	-	-	3,881,382	3,888,624
Grants						
IMF - poverty reduction and growth facility	2,500	5,000	-	-	2,500	5,000
Total grants	2,500	5,000	-	-	2,500	5,000
Other payables						
GST appropriation payable	62	82	-	-	62	82
IMF SDR allocation	796,724	839,509	-	-	796,724	839,509
IMF related monies owing	3,929	5,921	-	-	3,929	5,921
Other	179	-	-	45	179	45
Total other payables	800,894	845,512	-	45	800,894	845,557
Other provisions						
Provision for insurance claims	385	680	-	-	385	680
Provision for unearned premiums	-	55	-	-	-	55
Provision for HCS scheme	144,408	189,397	-	-	144,408	189,397
Total other provisions	144,793	190,132	-	-	144,793	190,132
Total other provisions and payables	945,687	1,035,644	-	45	945,687	1,035,689
Total liabilities administered on behalf of Government	4,829,569	4,929,268	-	45	4,829,569	4,929,313
Net assets administered on behalf of Government	12,455,018	11,632,495	2,754	2,519	12,457,772	11,635,014

Note 26: Appropriations**Note 26A: Acquittal of authority to draw cash from the consolidated revenue fund for ordinary annual services appropriations**

	Administered expenses								Departmental outputs		Total	
	Outcome 1		Outcome 2		Outcome 3		Outcome 4		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000				
Balance carried from previous period	-	-	-	-	-	-	4,706	5,424	52,216	57,342	56,922	62,766
Adjustment to prior year	-	-	-	-	-	-	-	-	-	-	-	-
Reductions of appropriations (prior years)	-	-	-	-	-	-	(4,706)	(5,424)	-	-	(4,706)	(5,424)
Adjusted balance carried from previous period	-	-	-	-	-	-	-	-	52,216	57,342	52,216	57,342
Appropriation Act (No. 1)	-	-	-	-	-	-	5,000	5,000	137,991	132,993	142,991	137,993
Appropriation Act (No. 3)	-	-	-	-	-	-	-	-	13,017	543	13,017	543
Adjustment to appropriations on change of entity function (FMA s32)	-	-	-	-	-	-	-	-	(164)	-	(164)	-
Refunds credited (FMA s30)	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation reduced by section 9 determination (current year)	-	-	-	-	-	-	-	-	(3,349)	-	(3,349)	-
Sub-total annual appropriation	-	-	-	-	-	-	5,000	5,000	147,495	133,536	152,495	138,536
Adjusted annual appropriation balance	-	-	-	-	-	-	5,000	5,000	147,495	133,536	152,495	138,536
Comcover Receipts (Appropriation Act s13)	-	-	-	-	-	-	-	-	-	12	-	12
Appropriations to take account of recoverable GST (FMA s30A)	-	-	-	-	-	-	5	29	2,457	4,227	2,462	4,256
Annotations to 'net appropriations' (FMA s31)	-	-	-	-	-	-	-	-	9,135	9,162	9,135	9,162

Note 26: Appropriations (continued)

Note 26A: Acquittal of authority to draw cash from the consolidated revenue fund for ordinary annual services appropriations (continued)

	Administered expenses								Departmental outputs		Total	
	Outcome 1		Outcome 2		Outcome 3		Outcome 4		2008	2007	2008	2007
	2008	2007	2008	2007	2008	2007	2008	2007				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Total appropriations available for payments	-	-	-	-	-	-	5,005	5,029	211,303	204,279	216,308	209,308
Cash payments made during the year (GST inclusive)	-	-	-	-	-	-	(50)	(323)	(140,325)	(152,063)	(140,375)	(152,386)
Balance of authority to draw cash from the consolidated revenue fund for ordinary annual services appropriations	-	-	-	-	-	-	4,955	4,706	70,978	52,216	75,933	56,922
<i>Represented by:</i>												
Cash at bank and on hand	-	-	-	-	-	-	-	-	1,682	589	1,682	589
Departmental appropriations receivable	-	-	-	-	-	-	-	-	68,898	51,432	68,898	51,432
GST receivable from the ATO	-	-	-	-	-	-	-	-	447	134	447	134
Receivables - goods and services - GST receivable from customers	-	-	-	-	-	-	-	-	115	108	115	108
Payables - suppliers - GST portion	-	-	-	-	-	-	-	-	(164)	(47)	(164)	(47)
Undrawn, unexpired administered appropriations	-	-	-	-	-	-	4,955	4,706	-	-	4,955	4,706
Total	-	-	-	-	-	-	4,955	4,706	70,978	52,216	75,933	56,922

Note 26: Appropriations (continued)

Note 26B: Acquittal of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations

	Operating															
	Outcome 1				Outcome 2				Outcome 3				Outcome 4			
	SPPs		NAE		SPPs		NAE		SPPs		NAE		SPPs		NAE	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance carried from previous period	-	-	-	-	19,504	2,742	-	-	-	-	-	-	-	959	-	-
Reduction of appropriations (prior years)	-	-	-	-	(19,504)	(2,742)	-	-	-	-	-	-	-	(959)	-	-
Adjusted balance carried from previous period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation Act (No. 2)	-	-	-	-	2,399	19,504	-	-	-	-	-	-	173,204	168,492	-	-
Appropriation Act (No. 4)	-	-	-	-	14	-	-	-	-	-	-	-	3,904	1,800	-	-
Appropriation Act (No. 6)	-	-	-	-	77,587	-	-	-	-	-	-	-	-	-	-	-
Adjustment of appropriations on change of entity function (FMA s32)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total annual appropriation	-	-	-	-	80,000	19,504	-	-	-	-	-	-	177,108	170,292	-	-
Appropriations to take account of recoverable GST (FMA s30A)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Departmental adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total appropriations available for payments	-	-	-	-	80,000	19,504	-	-	-	-	-	-	177,108	170,292	-	-

Note 26: Appropriations (continued)

Note 26B: Acquittal of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations (continued)

	Operating															
	Outcome 1				Outcome 2				Outcome 3				Outcome 4			
	SPPs		NAE		SPPs		NAE		SPPs		NAE		SPPs		NAE	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Cash payments made during the year (GST inclusive)	-	-	-	-	(80,000)	-	-	-	-	-	-	-	(173,957)	(170,292)	-	-
Appropriations credited to special accounts (GST exclusive)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations	-	-	-	-	-	19,504	-	-	-	-	-	-	3,151	-	-	-
Represented by:																
Undrawn, unexpired administered appropriations	-	-	-	-	-	19,504	-	-	-	-	-	-	3,151	-	-	-
Total	-	-	-	-	-	19,504	-	-	-	-	-	-	3,151	-	-	-

Note 26: Appropriations (continued)

Note 26B: Acquittal of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations (continued)

	Non-operating									
	Equity		Loans		Previous years' outputs		Admin assets and liabilities		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Balance carried from previous period	-	-	-	-	-	-	14,798	668	34,302	4,369
Reduction of appropriations (prior years)	-	-	-	-	-	-	-	-	(19,504)	(3,701)
Adjusted balance carried from previous period	-	-	-	-	-	-	14,798	668	14,798	668
Appropriation Act (No. 2)	110	276	-	-	1,820	-	53,773	4,165	231,306	192,437
Appropriation Act (No. 4)	8,868	-	-	-	-	-	-	14,068	12,786	15,868
Appropriation Act (No. 6)	-	-	-	-	-	-	-	-	77,587	-
Adjustment of appropriations on change of entity function (FMA s32)	-	-	-	-	-	-	-	-	-	-
Sub-total annual appropriation	8,978	276	-	-	1,820	-	53,773	18,233	321,679	208,305
Appropriations to take account of recoverable GST (FMA s30A)	898	28	-	-	182	-	447	-	1,527	28
Departmental adjustments	-	-	-	-	-	-	-	-	-	-
Total appropriations available for payments	9,876	304	-	-	2,002	-	69,018	18,901	338,004	209,001

Note 26: Appropriations (continued)

Note 26B: Acquittal of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations (continued)

	Non-operating									
	Equity		Loans		Previous years' outputs		Admin assets and liabilities		Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash payments made during the year (GST inclusive)	(9,876)	(304)	-	-	(2,002)	-	(20,511)	(4,103)	(286,346)	(174,699)
Balance of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations	-	-	-	-	-	-	48,507	14,798	51,658	34,302
Represented by:										
Cash at bank and on hand	-	-	-	-	-	-	6,034	-	6,034	-
Undrawn, unexpired administered appropriations	-	-	-	-	-	-	42,473	14,798	45,624	34,302
Total	-	-	-	-	-	-	48,507	14,798	51,658	34,302

Note 26: Appropriations (continued)**Note 26C: Acquittal of authority to draw cash from the consolidated revenue fund — special appropriations (unlimited amount)**

<i>A New Tax System (Commonwealth-State) Financial Arrangements Act 1999</i>	2008	2007
	\$'000	\$'000
		Outcome 2
<i>Purpose:</i> An Act under which the Australian Government guaranteed that in the transitional years following the introduction of tax reform, each State's budgetary position would be no worse off than had the reforms not been implemented.		
All transactions under this Act are recognised as administered items.		
Cash payments made during the year	(42,373,196)	(39,477,338)
Total charged to appropriation	(42,373,196)	(39,477,338)
Budget estimate	42,673,196	39,551,702
		Outcome 1
<i>Purpose:</i> An Act to promote international monetary cooperation, exchange stability, and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease the balance of payments adjustment.		
All transactions under this Act are recognised as administered items.		
Cash payments made during the year	(30,730)	(35,458)
Total charged to appropriation	(30,730)	(35,458)
Budget estimate	31,050	36,639

Note 26: Appropriations (continued)

Note 26C: Acquittal of authority to draw cash from the consolidated revenue fund — special appropriations (unlimited amount) (continued)

<i>Superannuation Industry (Supervision) Act 1993</i>	2008	2007
	\$'000	\$'000
		Outcome 4
<i>Purpose:</i> An Act to provide the framework for providing financial assistance to superannuation funds that had suffered an eligible loss, that is a loss as a result of fraudulent conduct or theft.		
All transactions under this Act are recognised as administered items.		
Cash payments made during the year	-	(1,484)
Total charged to appropriation	-	(1,484)
Budget estimate	-	1,477
Totals for unlimited special appropriations	2008	2007
	\$'000	\$'000
Cash payments made during the year	(42,403,926)	(39,514,280)
Total charged to appropriation	(42,403,926)	(39,514,280)
Budget estimate	42,704,246	39,589,818

Note 26: Appropriations (continued)

Note 26C: Acquittal of authority to draw cash from the consolidated revenue fund — special appropriations (limited amount) (continued)

Appropriation (HIH Assistance) Act 2001	2008	2007
	\$'000	\$'000
		Outcome 4
<i>Purpose:</i> An Act to provide Australian Government funded assistance to policy holders suffering financial hardship as a result of the failure of the HIH group companies and the appointment of the provisional liquidators of the HIH group companies. This special appropriation is limited to \$640,000,000.		
All transactions under this Act are recognised as administered items.		
Amount available carried from previous period	19,798	70,115
Appropriations to take account for recoverable GST (FMA s30A)	320	1,013
Available for payments	20,118	71,128
Cash payments made during the year	(20,118)	(51,330)
Amount available carried to the next period	-	19,798
<i>Represented by:</i>		
Cash	-	8,781
Undrawn, unexpired administered appropriations	-	11,017
Total	-	19,798

Note: During 2007-08 the *Appropriation (HIH Assistance) Act 2001* was exhausted. The HIH program is now funded through an annual capital appropriation.

Note 26: Appropriations (continued)

Note 26D: Acquittal of authority to draw cash from the consolidated revenue fund — special appropriations (refund provisions)

<i>Financial Management and Accountability Act 1997</i>	2008	2007
Transactions reported in this table are administered items.	\$'000	\$'000
		Outcome 2
Cash payments made during the year	54	-
Appropriations credited to Special Accounts	-	-
Refunds credited (net) (FMA s30)	-	-
Total charged to appropriation	54	-
Budget estimate (FMA s28)	-	-
		Outcome 4
Cash payments made during the year	-	8
Appropriations credited to Special Accounts	-	-
Refunds credited (net) (FMA s30)	-	-
Total charged to appropriation	-	8
Budget estimate (FMA s28)	-	-

Note 26: Appropriations (continued)**Note 26E: Acquittal of authority to draw cash from the consolidated revenue fund — special appropriations (section 39 of the FMA Act)**

In 2006-07 and 2007-08, the Treasury did not draw cash under section 39 of the FMA Act.

Note 26F: Acquittal of authority to draw cash from the consolidated revenue fund — special appropriations (other disclosures)

The special appropriations listed below are administered in nature and the responsibility of the Treasury. They were not used in the current reporting period or the previous reporting period, and therefore are not shown in separate tables.

Limited	
Act	Purpose
<i>Asian Development Bank Act 1966</i>	Payments and promissory notes to establish the Bank. Balance available is USD\$42,500,000 in callable shares.
<i>Asian Development Bank (Additional Subscription) Act 1972</i>	Subscribe to 2,550 (paid-in) and 10,200 (callable) shares. Balance available is USD\$102,000,000 in callable shares.
<i>Asian Development Bank (Additional Subscription) Act 1977</i>	Subscribe to 2,869 (paid-in) and 25,818 (callable) shares. Balance available is USD\$258,180,000 in callable shares.
<i>Asian Development Bank (Additional Subscription) Act 1983</i>	Subscribe to 2,622 (paid-in) and 49,811 (callable) shares. Balance available is USD\$498,110,000 in callable shares.
<i>Asian Development Bank (Additional Subscription) Act 1995</i>	Subscribe to 2,047 (paid-in) and 100,323 (callable) shares. Balance available is USD\$1,210,246,511 in callable shares.
<i>European Bank for Reconstruction and Development Act 1990</i>	Payments and promissory notes to establish the Bank. Balance available is USD\$81,690,700 in callable shares.
<i>International Financial Institutions (Share Increase) Act 1982</i>	For payments for additional shares of capital stock in the International Finance Corporation (IFC) and the International Bank for Reconstruction and Development (IBRD). Balance available is USD\$692,927,440 in callable shares (IBRD).
<i>International Monetary Agreements Act 1974</i>	Making payments, including for promissory notes, to the International Bank for Reconstruction and Development (IBRD). Balance available is USD\$37,638,120 in callable shares (IBRD).
<i>Multilateral Investment Guarantee Agency Act 1997</i>	Payments of capital and on securities issued to establish the Agency. Balance available is USD\$14,827,728 in callable shares.
<i>Papua New Guinea Loans Guarantee Act 1975</i>	Continuation of guarantees under the <i>Papua New Guinea Act 1949-75</i> . Balance available is AUD\$5,170,000.
Unlimited	
Act	Purpose
<i>Financial Agreements (Commonwealth Liability) Act 1932</i>	Payment of principal and interest on bonds issued under the <i>Financial Agreement Validation Act 1929</i> , consolidating State debts.
<i>Housing Loans Insurance Corporation (Transfer of Assets and Abolition) Act 1996</i>	Payments for amounts arising from claims made before the transfer period leading to the abolition of the HLIC.
<i>Mint Employees Act 1964</i>	Top up superannuation entitlements.
<i>Payment of Tax Receipts (Victoria) Act 1996</i>	Payment to Victoria of certain taxes collected by the Australian Government on Victoria's behalf.
<i>States Grants Act 1927</i>	Distribution of surplus revenue to the States.

Note 26: Appropriations (continued)

Note 26F: Acquittal of authority to draw cash from the consolidated revenue fund — special appropriations (other disclosures) (continued)

The disclosure below is for note purposes only and is not recognised in the financial statements.

Commonwealth Places (Mirror Taxes) Act 1998

The Treasury is responsible for administering the above Act to pay compensation to the States for constitutionally invalid States taxes levied on Commonwealth places. Under the Act, the Australian Government is liable to pay to a State amounts equal to amounts received by the Australian Government (including amounts received by a State on behalf of the Australian Government) under an applied law of the State. During the current reporting period and previous reporting period the States collected and provided the following estimates of taxes pursuant to the Act:

	2008	2007
	\$	\$
Total mirror tax collection	384,621,285	358,017,041

Note 26: Appropriations (continued)**Note 26G: Special accounts****Actuarial Services Special Account (departmental)***Legal authority: Financial Management and Accountability Act 1997; s20**Purpose: Providing actuarial services and advice.**Note: Actuarial Services Special Account was established on 1 October 2006.*

	2008	2007
	\$'000	\$'000
<i>This account is non-interest bearing</i>		
Balance carried from Australian Government Actuary Account	1,672	1,704
GST credit (FMA s30A)	8	5
Other receipts from rendering of services	1,611	1,011
Available for payments	3,291	2,720
Payments made to employees	(1,016)	(709)
Payments made to suppliers	(417)	(339)
Balance carried to next period	1,858	1,672
<i>Represented by:</i>		
Cash held by the Australian Government Actuary	588	1,667
<i>Add: Receivables - Moneys held in the OPA</i>	1,270	-
<i>Add: Receivables - goods and services - GST receivable from customers</i>	29	16
<i>Less: Other payables - net GST payable to the ATO</i>	(26)	(11)
<i>Less: Payable - suppliers - GST portion</i>	(3)	-
Total balance carried to the next period	1,858	1,672

Note 26: Appropriations (continued)

Note 26G: Special accounts (continued)

Australian Government Actuary Account (departmental)

Legal authority: Financial Management and Accountability Act 1997; s20

Purpose: For expenditure of moneys related to the operations of the Australian Government Actuary.

Note: Australian Government Actuary Account was abolished on 30 September 2006. The balance of the special account was transferred to Actuarial Services Special Account (transfer shown as 'other payments') during the 2006-07 Financial Year.

	2008 \$'000	2007 \$'000
<i>This account is non-interest bearing</i>		
Balance carried from previous period	-	1,557
Adjustment to prior year	-	-
Adjusted balance carried forward from previous period	-	1,557
GST credit (FMA s30A)	-	2
Other receipts from rendering of services	-	490
Available for payments	-	2,049
Payments made to employees	-	(205)
Payments made to suppliers	-	(140)
Other payments	-	(1,704)
Balance carried to next period	-	-
<i>Represented by:</i>		
Cash held by the Australian Government Actuary	-	1,703
<i>Add:</i> Receivables - goods and services - GST receivable from customers	-	8
<i>Less:</i> Other payables - net GST payable to the ATO	-	(7)
<i>Less:</i> Payable - suppliers - GST portion	-	-
<i>Less:</i> Transfer of balance to Actuarial Services Special Account	-	(1,704)
Total balance carried to the next period	-	-

Note 26: Appropriations (continued)**Note 26G: Special accounts (continued)****Lloyd's Deposit Trust Special Account (departmental)**

Legal authority: Financial Management and Accountability Act 1997; s20

Purpose: To disburse amounts in accordance with section 92Q of the Insurance Act 1973.

Note: Lloyd's Deposit Trust Special Account was established on 1 October 2006.

	2008	2007
	\$'000	\$'000
<i>This account is non-interest bearing</i>		
Balance carried from Lloyd's Deposit Trust Account	2,000	2,000
Other receipts from provision of goods	150	75
Available for payments	2,150	2,075
Payments made to suppliers	(150)	(75)
Transfer to APRA	2,000	-
Balance carried to next period	-	2,000
<i>Represented by:</i>		
Securities held by Treasury	-	2,000
Total balance carried to the next period	-	2,000

Note 26: Appropriations (continued)

Note 26G: Special accounts (continued)

Lloyd's Deposit Trust Account (departmental)

Legal authority: Financial Management and Accountability Act 1997; s20

Purpose: For recording deposits made in accordance with the provisions of the Insurance Act 1973

Note: Lloyd's Deposit Trust Account was abolished on 30 September 2006. The balance of the special account was transferred to Lloyd's Deposit Trust Special Account (transfer shown as 'other payments') during the 2006-07 Financial Year.

	2008	2007
	\$'000	\$'000
<i>This account is non-interest bearing</i>		
Balance carried from previous period	-	2,000
Other receipts from provision of goods	-	75
Available for payments	-	2,075
Payments made to suppliers	-	(75)
Other payments	-	(2,000)
Balance carried to next period	-	-
<i>Represented by:</i>		
Securities held by Treasury	-	-
Total balance carried to the next period	-	-

Note 26: Appropriations (continued)

Note 26G: Special accounts (continued)

Services for other Governments and non-agency bodies account (departmental)

The Treasury has a 'Services for other Governments and non-agency bodies special account' established under section 20 of the *Financial Management and Accountability Act 1997* (FMA Act). The purpose of this special account is for the expenditure in connection with services performed on behalf of other governments and bodies that are not agencies under the FMA Act. For the years ended 30 June 2007 and 30 June 2008 this special account had nil balances and no transactions were credited or debited to the account.

Other trust moneys account (Departmental — Special Public Money)

The Treasury has a 'Other trust moneys special account' established under section 20 of the FMA Act. The purpose of this special account is for expenditure of moneys temporarily held on trust or otherwise for the benefit of a person other than the Australian Government. Any money held is thus special public money under section 16 of the FMA Act. For the year ended 30 June 2006, this special account held moneys advanced to the Treasury by Comcare for the purpose of distributing compensation payments made in accordance with the *Safety Rehabilitation and Compensation Act 1998*. Amendments in this Act have allowed payments that are direct reimbursements to employers to no longer be considered as Special Public Money. The effect of this change is from 1 July 2006. In the past, where the Treasury made payments against accrued sick leave entitlements pending determination of an employee's claim, permission was obtained in writing from each individual to allow the Treasury to recover the payments from the moneys in the account. The Treasury obtained the employees' consent prior to the determination of the claim to allow the Treasury to recover the payments from the monies when received. In this respect only overpayments and errors in payments are special public monies and credited to the account accordingly until returned to Comcare. For the years ended 30 June 2007 and 30 June 2008, this special account had nil balances and no transactions were credited or debited to the account.

Other trust moneys account (Administered — Special Public Money)

The Treasury has an 'Other trust moneys special account' established under section 20 of the FMA Act. The purpose of this special account is for expenditure of moneys temporarily held on trust or otherwise for the benefit of a person other than the Australian Government. Any money held is thus special public money under section 16 of the FMA Act.

For the years ended 30 June 2007 and 30 June 2008, this special account held moneys in relation to HIIH recoveries received from the HIIH Claims Manager, which were recovered from third parties in relation to claims made by persons insured by HIIH. These recoveries comprise a portion which is due to third parties (non-Commonwealth) and part to the Commonwealth. Receipts and subsequent payments relating to third parties (non-Commonwealth) are treated as special public moneys.

	2008	2007
	Actual	Actual
	\$'000	\$'000
Balance carried forward from previous year	11	45
Receipts during the year	1,164	364
Available for payments	1,175	409
Payments made	(1,175)	(398)
Balance carried forward to next year held by the entity	-	11
<i>Represented by:</i>		
Cash held by Treasury	-	11
Balance carried forward to next year held by the entity	-	11

Note 26H: Special accounts investment of public money

For the periods 2006-07 and 2007-08, the Treasury has not used section 39 of the FMA Act or section 18 and 19 of the Commonwealth Authorities and Companies Act in respect of this Special Account.

Note 27: Compensation and debt relief

In 2006-07 and 2007-08, the Treasury made no administered or departmental act of grace, ex-gratia or s73 of the *Public Service Act 1999* payments.

Note 28: Reporting of outcomes

The Treasury uses a process of cost allocation to estimate the allocation of shared costs. The cost of each output comprises direct and indirect costs. Direct costs are assigned to outputs according to detailed cost profiles. Indirect costs that comprise corporate and overhead items such as information technology, accommodation and human resource management are allocated to outputs based on a (cost driver) consumption basis. This basis of allocation is consistent with the basis used for previous years.

Note 28: Reporting of outcomes (continued)**Note 28A: Net cost of outcome delivery**

	Outcome 1		Outcome 2		Outcome 3		Outcome 4		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Expenses										
Administered expenses	28,738	233,727	42,453,196	39,551,938	-	-	173,754	169,973	42,655,688	39,955,638
Departmental expenses	33,270	41,112	20,822	15,445	40,899	41,790	54,684	54,292	149,675	152,639
Total expenses	62,008	274,839	42,474,018	39,567,383	40,899	41,790	228,438	224,265	42,805,363	40,108,277
Costs recovered from provision of goods and services to the non-government sector										
Administered	-	-	-	-	-	-	-	-	-	-
Departmental	233	235	56	132	-	1	19	22	308	390
Total costs recovered	233	235	56	132	-	1	19	22	308	390
Other external revenues										
Administered										
Interest	3,404	10,010	-	-	-	-	248	225	3,652	10,235
Dividends	1,084,822	1,177,725	-	-	-	-	-	-	1,084,822	1,177,725
GST administration fees	-	-	600,200	618,792	-	-	-	-	600,200	618,792
HIH Group liquidation proceeds	-	-	-	-	-	-	55,271	43,646	55,271	43,646
Net foreign exchange gains	67,519	-	-	-	-	-	-	-	67,519	-
Other revenue	-	-	900	2,300	-	-	12,809	20,311	13,709	22,611
Total administered	1,155,745	1,187,735	601,100	621,092	-	-	68,328	64,182	1,825,173	1,873,009
Departmental										
Net gains	93	101	48	41	128	175	91	81	360	398
Sale of assets	-	20	-	8	-	21	-	16	-	65
Other	332	284	99	152	192	280	201	295	824	1,011
Related goods and services revenue	3,005	4,120	70	13	259	345	2,349	1,975	5,683	6,453
External goods and services revenue	886	16	20	2	76	59	693	299	1,675	376
Total departmental	4,316	4,541	237	216	655	880	3,334	2,666	8,542	8,303
Total other external revenues	1,160,061	1,192,276	601,337	621,308	655	880	71,662	66,848	1,833,715	1,881,312
Net cost/(contribution) of outcome	(1,098,286)	(917,672)	41,872,625	38,945,943	40,244	40,909	156,757	157,395	40,971,340	38,226,575

Outcomes 1, 2, 3 and 4 are described in Note 1.1. Net costs shown include intra-government costs that are eliminated in calculating the actual budget outcome.

The 2007 comparative does not match what was published in the Treasury's financial statements for that year due to a revision in the method of calculation for recoveries from the non-government sector.

Note 28: Reporting of outcomes (continued)**Note 28B: Major classes of departmental revenues and expenses by output group and outputs**

	Output Group 1.1 Output 1.1.1		Output Group 1.1 Output 1.1.2		Outcome 1 Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
			Domestic economic policy advice and forecasting	International economic policy advice and assessment		
Departmental expenses						
Employee benefits	7,485	7,264	16,329	19,095	23,814	26,359
Suppliers and grants	2,062	1,877	6,448	11,839	8,510	13,716
Depreciation and amortisation	243	227	661	757	904	984
Write down of assets	3	4	9	10	12	14
Finance costs	7	9	18	30	25	39
Net losses from sale of assets	1	-	4	-	5	-
Total departmental expenses	9,801	9,381	23,469	31,731	33,270	41,112
Funded by:						
Revenues from Government	9,695	8,930	18,644	26,733	28,339	35,663
Sale of goods and services	80	142	4,044	4,229	4,124	4,371
Other non-taxation revenues	123	63	209	221	332	284
Sale of assets	-	5	-	15	-	20
Other gains	24	24	69	77	93	101
Total departmental revenues	9,922	9,164	22,966	31,275	32,888	40,439

Note 28: Reporting of outcomes (continued)**Note 28B: Major classes of departmental revenues and expenses by output group and outputs (continued)**

	Output Group 2.1 Output 2.1.1		Output Group 2.1 Output 2.1.2		Output Group 2.1 Output 2.1.3		Output Group 2.1 Output 2.1.4		Outcome 2 Total	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
					Industry, environment and defence policy advice		Social and income support policy advice			
Departmental expenses										
Employee benefits	3,149	2,819	2,338	2,016	5,589	3,562	4,547	3,695	15,623	12,092
Suppliers and grants	774	711	623	537	2,250	887	1,044	790	4,691	2,925
Depreciation and amortisation	97	102	78	67	174	127	134	106	483	402
Write down of assets	1	1	3	1	2	7	2	1	8	10
Finance costs	3	4	2	3	5	5	4	4	14	16
Net losses from sale of assets	1	-	-	-	1	-	1	-	3	-
Total departmental expenses	4,025	3,637	3,044	2,624	8,021	4,588	5,732	4,596	20,822	15,445
Funded by:										
Revenues from Government	4,095	3,703	2,987	2,654	8,725	4,236	5,099	5,043	20,906	15,636
Sale of goods and services	28	37	23	25	54	46	41	39	146	147
Other non-taxation revenues	19	27	15	20	39	34	26	71	99	152
Sale of assets	-	2	-	1	-	3	-	2	-	8
Net gains	9	10	8	7	18	13	13	11	48	41
Total departmental revenues	4,151	3,779	3,033	2,707	8,836	4,332	5,179	5,166	21,199	15,984

Note 28: Reporting of outcomes (continued)

Note 28B: Major classes of departmental revenues and expenses by output group and outputs (continued)

	Output Group 3.1		Output Group 3.1		Outcome 3 Total	
	Output 3.1.1		Output 3.1.2			
	Taxation policy and legislation advice		Retirement income and saving policy and legislation advice			
	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses						
Employees	23,189	26,112	7,173	5,582	30,362	31,694
Suppliers and grants	7,675	7,479	1,806	1,534	9,481	9,013
Depreciation and amortisation	769	825	237	204	1,006	1,029
Write down of assets	11	11	3	3	14	14
Finance costs	22	32	7	8	29	40
Net losses from sale of assets	5	-	2	-	7	-
Total departmental expenses	31,671	34,459	9,228	7,331	40,899	41,790
Funded by:						
Revenues from Government	33,730	35,255	9,021	6,739	42,751	41,994
Sale of goods and services	256	321	79	84	335	405
Other non-taxation revenues	147	225	45	55	192	280
Sale of assets	-	17	-	4	-	21
Net gains	105	154	23	21	128	175
Total departmental revenues	34,238	35,972	9,168	6,903	43,406	42,875

Note 28: Reporting of outcomes (continued)**Note 28B: Major classes of departmental revenues and expenses by output group and outputs (continued)**

	Output Group 4.1		Output Group 4.1		Output Group 4.1		Output Group 4.1		Outcome 4 Total	
	Output 4.1.1		Output 4.1.2		Output 4.1.3		Output 4.1.4			
	Foreign investment and trade policy advice and administration		Financial system and corporate governance policy advice		Competition and consumer policy advice		Actuarial Services			
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses										
Employees	4,312	4,173	13,605	11,546	12,349	9,329	1,078	967	31,344	26,015
Suppliers and grants	1,455	1,638	10,177	9,554	10,291	15,833	423	355	22,346	27,380
Depreciation and amortisation	149	152	440	424	359	277	3	2	951	855
Write down of assets	2	2	6	5	5	4	-	-	13	11
Finance costs	4	6	11	14	10	11	-	-	25	31
Net losses from sale of assets	1	-	2	-	2	-	-	-	5	-
Total departmental expenses	5,923	5,971	24,241	21,543	23,016	25,454	1,504	1,324	54,684	54,292
Funded by:										
Revenues from Government	5,686	4,764	23,584	22,011	28,049	13,468	-	-	57,319	40,243
Sale of goods and services	164	395	1,189	238	169	268	1,539	1,395	3,061	2,296
Other non-taxation revenues	9	61	121	155	71	79	-	-	201	295
Sale of assets	-	3	-	7	-	6	-	-	-	16
Net gains	15	15	40	37	36	29	-	-	91	81
Total departmental revenues	5,874	5,238	24,934	22,448	28,325	13,850	1,539	1,395	60,672	42,931

Note 28: Reporting of outcomes (continued)

Note 28C: Major classes of administered revenues and expenses by outcome

	Outcome 1		Outcome 2		Outcome 3		Outcome 4		Total	
	Sound macroeconomic environment		Effective government spending arrangements		Effective taxation and retirement income arrangements		Well functioning markets			
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered revenues										
Interest	3,404	10,010	-	-	-	-	248	225	3,652	10,235
Dividends	1,084,822	1,177,725	-	-	-	-	-	-	1,084,822	1,177,725
Goods and services	-	-	600,200	618,792	-	-	-	-	600,200	618,792
HIH Group liquidation proceeds	-	-	-	-	-	-	55,271	43,646	55,271	43,646
Other	-	-	900	2,300	-	-	12,809	20,311	13,709	22,611
Net foreign exchange gains	67,519	-	-	-	-	-	-	-	67,519	-
Total administered revenues	1,155,745	1,187,735	601,100	621,092	-	-	68,328	64,182	1,825,173	1,873,009
Administered expenses										
Grants	-	-	42,453,196	39,551,938	-	-	173,957	169,966	42,627,153	39,721,904
Other	28,738	35,779	-	-	-	-	(203)	7	28,535	35,786
Net foreign exchange losses	-	197,948	-	-	-	-	-	-	-	197,948
Total administered expenses	28,738	233,727	42,453,196	39,551,938	-	-	173,754	169,973	42,655,688	39,955,638

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OCCUPATIONAL HEALTH AND SAFETY

In accordance with the *Occupational Health and Safety Act 1991*, the Treasury is committed to providing a safe and healthy working environment for all employees and continues to implement wellbeing strategies promoting prevention, early intervention and education. In line with this commitment, the 2007 Staff Opinion Survey indicated that 91 per cent of respondents felt that the Treasury is a safe and healthy workplace.

As a signatory to Comcare's Employer Statement of Commitment, the Treasury continues to observe the Occupational Health and Safety and Rehabilitation Performance Improvement Targets (2002-12) and maintains its relatively low rate of workplace injury by monitoring, evaluating and improving performance. The Treasury's Comcare premium rate for 2007-08 was 0.56 per cent (0.58 per cent in the previous year) and remains considerably lower than the Commonwealth average which was recently revised to 1.36 per cent.

In late 2007, the Treasury's Health and Safety Management Arrangements 2007-10 were implemented. These arrangements outline how Occupational Health and Safety (OH&S) is managed and include a framework and support networks designed to foster a safe and healthy workplace. These arrangements reinforce the responsibilities all employees have in actively promoting these strategies for the wellbeing of employees, contractors and visitors to the workplace.

All new starters receive a verbal briefing on their OH&S obligations and support structures to ensure their physical and psychological wellbeing. An OH&S presentation is also included as part of formal induction sessions with a demonstration of appropriate workstation set-up and provision of additional information relating to emergency procedures, emergency officers, the employee assistance program, accident/incident reporting, first-aid officers, health and safety representatives, the health and safety committee, eyesight testing and health activities.

In October 2007, the Treasury's Health Month was successfully launched by former Australian cricketer, Michael Bevan with approximately 150 employees attending the event. As part of Health Month, 414 employees participated in a comprehensive health assessment measuring blood pressure, cholesterol, blood glucose levels and body mass index. Information sessions throughout the month covered topics including happiness at work, stress, relaxation, sleep and nutrition with approximately 200 employees attending these sessions overall. In addition, 136 employees participated in the 10,000 Steps virtual journey from Rockhampton to the Gold Coast.

During 2007-08, the Treasury received 27 work-related incident reports with most relating to body stressing injuries. Of the 27 incidents reported, 6 compensation claims were submitted, 5 were accepted and 1 is yet to be determined. No incidents were reported to Comcare under section 68 of the *Occupational Health and Safety Act 1991*. Treasury

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employees are encouraged to actively practice preventive measures in their daily work routines and to report incidents as soon as possible. Incident investigation is a high priority and immediate action is taken to rectify hazards.

The Treasury's first aid officers play a vital role in providing first aid to employees. The 28 first aid officers are fully trained and located throughout the building to ensure immediate assistance is available when required.

Should an injury be sustained, the Treasury aims for effective rehabilitation and early return to work through case management and/or engagement of a rehabilitation provider, regardless of whether a case is compensable. Managers are encouraged to report absence which may be related to injury/illness or a depressed/stressed state so that appropriate action can be put in place as soon as possible. Leave data is also analysed fortnightly to enable early intervention of potentially non-reported issues.

In July 2007, Beyondblue delivered a workshop to assist Treasury managers in recognising and dealing with common mental illnesses in the workplace. Twenty two managers attended this workshop, allowing early intervention strategies to be put in place for employees requiring assistance.

The Treasury's Health and Safety Committee meets quarterly to develop, monitor and review measures aimed at protecting staff wellbeing. Committee members facilitate cooperation amongst employees and advise on more complex health and safety issues.

Health and safety representatives actively promote safety awareness and good OH&S practice by conducting quarterly inspections to help rectify both workplace and psychosocial hazards. They consult and provide advice to managers and staff on a range of OH&S issues and ensure measures are put in place to ensure staff health and safety is not compromised. As a result of the inspections conducted in 2007-08, no notices were given under sections 29, 46 and 47 of the *Occupational Health and Safety Act 1991*.

As a preventive measure, Treasury offers workstation set-up training to help employees understand ergonomic principles, workplace practices and workstation adjustment. Twenty one employees participated in this training and 255 individual workstation assessments were conducted in 2007-08.

Employees who require glasses for screen-based use can be reimbursed for a portion of the cost; 17 employees were reimbursed in 2007-08.

To assist employees in keeping active, the Treasury offers on-site exercise activities such as flexible for life, yoga and aerobics throughout the year.

Influenza vaccinations paid by the Treasury are offered annually with 288 employees receiving vaccinations in April 2008.

In cooperation with the Department of Finance and Deregulation, a 10 metre smoking exclusion zone was introduced around the Treasury building. This initiative is designed to prevent the inadvertent exposure of cigarette smoke to employees and third parties

accessing entry/exit points of the Treasury building and those using the neighbouring childcare centre and café.

As part of the Treasury's Workplace Agreement 2006-09, 752 employees took advantage of the Treasury's Lifestyle Contribution in 2007-08. This annual payment of \$450 can be used for activities which promote wellbeing such as gym memberships and stress management programs.

FREEDOM OF INFORMATION

The Treasury handles Freedom of Information matters for the Treasury, the Foreign Investment Review Board, the Takeovers Panel, the Financial Reporting Panel, the Australian Office of Financial Management, the Companies Auditors and Liquidators Disciplinary Board and the Financial Reporting Council.

Under section 8 of the *Freedom of Information Act 1982*, the Treasury must report on its activities. The Australian Competition Tribunal's statement then follows. The tribunal is a separate body within the Treasury portfolio but does not publish an annual report.

THE TREASURY — STATEMENT

Section 8 of the *Freedom of Information Act 1982* requires the Treasury to publish detailed information about:

- how it is organised and what decision-making powers it has;
- what arrangements it makes for public involvement in its work;
- what types of documents it holds; and
- how the public can obtain access to these documents.

The following information addresses these requirements.

Organisation of the Treasury

Details of the Treasury's organisational and top management structure are set out in Part 1, Figure 1 on page 15. The Treasury's functions and the decision-making powers exercised in carrying out those functions are described in the Departmental Overview and Corporate Governance sections of this report.

Details of the organisation and structure of the Foreign Investment Review Board, the Takeovers Panel and the Financial Reporting Panel are published separately in the annual reports of each of those bodies.

The Treasury delegations and authorisations

The Treasurer, other ministers and the Secretary to the Treasury have delegated certain powers to officials, or have authorised officials to act on their behalf, under Acts of Parliament and agreements. These delegations and authorisations stand in force until renewed, and are listed below.

- The Treasurer has the discretionary power to guarantee the borrowings of some Commonwealth statutory authorities, and in some cases, to delegate his guarantee powers to Treasury officers. The Treasurer has delegated his powers to guarantee the borrowings of Australian National Railways to the General Manager, Commonwealth-State Relations Division; Manager, Federal Finances Unit; and Manager, State Finances Unit.
- Under section 21 of the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*, the Treasurer has delegated the power to make payments to the States under sections 18 and 19 of the Act to the Executive Director, Fiscal and Corporate; General Manager, Commonwealth-State Relations Division; and General Manager, Budget Policy Division.
- Under subclause 7(5) of Schedule 1 to the *A New Tax System (Commonwealth-State Financial Arrangements) Act 1999*, the Treasurer has delegated the functions under subclauses (1), (3) and (4) of clause 7 of Schedule 1 to the Executive Director, Fiscal and Corporate; General Manager, Commonwealth-State Relations Division; and General Manager, Budget Policy Division.
- Under the *Crimes (Currency) Authorisation 2006*, the Treasurer has delegated certain powers to the General Manager, Corporations and Financial Services Division; the Chief Executive Officer, Royal Australian Mint; and the Senior Manager, Note Development, Research and Security, Reserve Bank of Australia, pursuant to the definition of ‘an authorised person’ in subsection 3(1) of the *Crimes (Currency) Act 1981*.
- Under the *Currency Delegation 2007*, the Treasurer has delegated the power to determine the issue price of coins of certain denominations under subsection 14A(2) of the *Currency Act 1965*, to the General Manager, Corporations and Financial Services Division and the Chief Executive Officers of the Royal Australian Mint and the Gold Corporation.
- Under the *Gold Corporation Agreement Delegation 1999*, the Treasurer has delegated authority to approve a range of essentially administrative matters provided for under the Gold Corporation Agreement between the Commonwealth and Goldcorp Australia relating to gold, platinum and silver coins to the Executive Director, Markets Group and the General Manager, Corporations and Financial Services Division.
- Under subsections 22(1) and 21A(2) of the *Foreign Acquisitions and Takeovers Act 1975*, the Treasurer has authorised the General Manager, Managers and Assistant Managers of the Foreign Investment and Trade Policy Division to act on his behalf to approve and conditionally approve various proposals and, in specific circumstances, to make an order.

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- Under section 22 of the *Mutual Assistance in Business Regulation Act 1992*, the Treasurer has delegated to the General Manager, Corporations and Financial Services Division the authorisation to exercise the Treasurer's powers to consider requests raised under the Act from foreign regulators for information, documents or evidence, including the ability to impose conditions on an authorisation.
- The Treasurer has delegated to Treasury officials the authority to vote on routine matters arising from the Treasurer's Governorship of the IMF, the World Bank Group, the Asian Development Bank and the European Bank for Reconstruction and Development.
- Under subsection 9A(2) of the *Australian Prudential Regulation Authority Act 1988*, the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, on behalf of the Treasurer, has delegated power to the Executive Director, Markets Group and the General Manager, Financial System Division to approve the Australian Prudential Regulation Authority to enter into an agreement to provide prudential regulation of advice services for a fee.
- Under subsection 35(1) of the *Archives Act 1983*, the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, on behalf of the Treasurer, has delegated to the General Manager, Corporations and Financial Services Division the authorisation to arrange to exempt records from the open access period.
- Under section 92Q of the *Insurance Act 1973*, the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs has authorised Treasury officials to make interest payments to Lloyd's.
- Under subsections 147(2) and 601DC(2) of the *Corporations Act 2001*, the Minister for Superannuation and Corporate Law has delegated the powers to consent to a name being available to a body corporate, to the Australian Securities and Investments Commission Chief Executive Officer and the Australian Securities and Investments Commission Director, Public Information Program — Operations.
- Under subsection 56(2) of the *Archives Act 1983*, the Minister for Finance and Deregulation has delegated to the Treasurer, the Secretary to the Treasury and other departmental officers the authorisation to approve access to records not in the open access period.
- Under the *Financial Management and Accountability Act 1997*, and the *Financial Management and Accountability Regulations 1997*, the Minister for Finance and Deregulation has delegated certain powers to the Secretary to the Treasury who has sub-delegated them to Treasury officials. The Secretary to the Treasury holds powers in his own right under the *Financial Management and*

Accountability Act 1997, and these have also been delegated to Treasury officials.

- Under subsection 23(1) of the *Freedom of Information Act 1982*, the Secretary to the Treasury has authorised senior executive service officers within the Treasury to make decisions regarding initial requests for access to documents. Executive Directors are authorised under section 23 to consider and make decisions on applications for internal review.
- In accordance with subsections 33(5), 33A(6) and 36(8) of the *Freedom of Information Act 1982*, the Treasurer has delegated his powers to the Secretary to the Treasury, in respect of documents of the Treasury.
- Under the following legislation, the Secretary to the Treasury has delegated to nominated Treasury officials certain of his responsibilities and decision-making powers as an employer: *Public Service Act 1999*; *Public Service Regulations 1999*; *Public Service Classification Rules 2000*; *Public Service Commissioner's Directions 1999*; *Long Service Leave (Commonwealth Employees) Act 1976*; *Maternity Leave (Commonwealth Employees) Act 1973*; and *Safety, Rehabilitation and Compensation Act 1988*.

Arrangements for outside participation

People or organisations outside the Australian Government administration may participate in forming policy or administering enactments and schemes for which the Treasury is responsible. They can do this by writing to Treasury portfolio ministers, the Secretary to the Treasury, or agencies in the Treasury portfolio. In addition, the Treasury website includes details of current public consultations, reviews and inquiries, with details about how to make submissions.

Consultation arrangements

Community consultation enables the Treasury to be better informed when providing advice to the government.

Treasury officers conduct regular discussions with companies and organisations to monitor, analyse and report on economic conditions and prospects. The Treasury also engages in consultation to inform the development and implementation of specific policy proposals, including a comprehensive consultation program on substantive tax and superannuation policy proposals. By being fully informed of the effects of specific proposals, the Treasury can better advise the government on how to best meet its objectives and minimise any unintended consequences.

The Treasury takes a number of different approaches to liaison and consultation, depending on the time available or commercial and other sensitivities surrounding an issue. For example, in tax design and legislation, the Treasury liaises with peak bodies on

issues relating to the tax system as a whole, with specialist stakeholder groups focusing on more specific areas of tax, and with stakeholders on specific measures.

Consultation on policy proposals may be broad, with submissions invited from the general public or targeted, with submissions sought from specific stakeholders, representative focus groups or technical experts with knowledge in the relevant field. These consultations are based on publicly available documents such as discussion or issues papers. At times, targeted consultation may be conducted on a confidential basis owing to the sensitivity of particular proposals. Sensitivity can sometimes preclude consultation on a particular measure.

When engaging in community consultation, the Treasury seeks to involve an appropriate range of stakeholders; ensures all participants have an opportunity to contribute to the consultation; endeavours to provide realistic timeframes for participants to contribute; acknowledges, respects and seeks to understand the views of participants; and provides feedback on those views where possible. While consultation will not always result in a consensus, it assists the Treasury to provide advice to the government that both alerts it to community concerns and balances the competing factors that affect the wellbeing of the Australian people.

Additionally, the following arrangements allow bodies outside the Australian Government administration to participate in advising on policy and administering enactments or schemes.

Australian Office of Financial Management Advisory Board

The Australian Office of Financial Management (AOFM) Advisory Board is a non-statutory advisory body established by the Secretary to the Treasury in December 2000 to advise on the activities of the AOFM. The board comprises seven members: the Secretary to the Treasury, the AOFM Chief Executive Officer, a senior Treasury official, a senior officer of the Department of Finance and Deregulation and three experts drawn from the financial sector. The outside appointments are for three years and members may be reappointed.

The AOFM Advisory Board is accountable to the Secretary to the Treasury who is the Chair of the Board. The board performs an advisory role and does not possess executive powers or decision-making authority in its own right. The board provides general counsel and guidance to the Secretary to the Treasury on all aspects of operational debt policy matters and AOFM performance generally. It reviews the financial statements, legislative and policy compliance, and management recommendations on matters requiring ministerial approval.

Board of Taxation

The Board of Taxation is a non-statutory advisory body established in August 2000 to advise on the design and operation of Australia's tax laws, ensuring full and effective community consultation in designing and implementing tax legislation.

The board comprises ten members; seven are drawn from the business and community sectors, including the chair. These members are appointed on a part-time basis and with a view to their ability personally to contribute a broad range of relevant business, practitioner and broader community knowledge and experience to developing the tax system. The appointments are for up to three years and members may be reappointed. The Secretary to the Treasury, the Commissioner of Taxation and the First Parliamentary Counsel serve as ex officio members.

The Board of Taxation provides advice to the Treasurer on:

- the quality and effectiveness of tax legislation and processes for its development, including community consultation and other aspects of tax design;
- improvements to the general integrity and functioning of the tax system;
- research and other studies it commissions on topics approved or referred to it by the Treasurer; and
- other tax matters referred to it by the Treasurer.

The Treasury provides secretariat support to the board.

Commonwealth Consumer Affairs Advisory Council

The Commonwealth Consumer Affairs Advisory Council is a non-statutory advisory body established in May 1999. Its primary role is to provide the relevant Minister with independent advice on consumer affairs matters.

Members of the Commonwealth Consumer Affairs Advisory Council are appointed by the Minister and come from a range of industries and backgrounds. All serve as individuals, rather than as representatives of organisations. In July 2008, the Assistant Treasurer and Minister for Competition and Consumer Affairs announced changes to the membership of the council.

The Commonwealth Consumer Affairs Advisory Council meets regularly to identify and advise on new and emerging consumer issues and investigate, advise and report on consumer issues referred to the Council by the Assistant Treasurer and Minister for Competition and Consumer Affairs.

Corporations and Markets Advisory Committee

The Corporations and Markets Advisory Committee is a body corporate established under Part 9 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

The Corporations and Markets Advisory Committee comprises part-time members appointed by the Treasurer. Members are selected from throughout Australia on the basis of their knowledge of, or experience in business, company administration, financial markets, law, economics or accounting. The chairman of the Australian Securities and

Investments Commission is an ex-officio member of the Advisory Committee by the operation of section 147 of the ASIC Act.

The committee, on its own initiative or when requested by the minister, provides advice and recommends on such matters connected with:

- a proposal to make or amend corporations legislation (except excluded provisions);
- the operation or administration of the corporations legislation (except excluded provisions);
- law reform on corporations legislation (except excluded provisions);
- companies or a segment of the financial products and financial services industry; and
- a proposal to improve the efficiency of financial markets.

In fulfilling these functions, the committee seeks to stimulate and lead public debate to enhance the standards for corporations and participants in financial markets, and propose suitable regulatory reform when necessary.

The committee is assisted by its legal subcommittee.

Financial Literacy Foundation Advisory Board

The Financial Literacy Foundation Advisory Board is a non-statutory body established in June 2005 to provide advice to the Government on financial literacy issues. The operations of the Financial Literacy Foundation were transferred from the Treasury to the Australian Securities and Investments Commission on 1 July 2008. Under this arrangement, the Financial Literacy Advisory Board provides independent advice on financial literacy issues to the Australian Securities and Investments Commission.

The Advisory Board comprises 10 members, including the chair, drawn from the business, education and community sectors. Current Advisory Board members were appointed in mid-2006 for three years. Members were appointed in their own right and not in their capacity as representatives of organisations. Appointments were subject to formal declarations regarding conflict of interest and confidentiality. Remuneration is on an expense recovery only basis.

Financial Sector Advisory Council

The Financial Sector Advisory Council is a non-statutory body established in April 1998 as part of the Government's response to the Financial System Inquiry. The council provides advice to the Government on policies to facilitate the growth of a strong and competitive financial system. The Treasurer appoints members in their personal capacity for two years, subject to their continued involvement in the relevant area of the financial sector.

The council can act on its own motion or as a government reference. Financial Sector Advisory Council submissions and recommendations to Treasury portfolio ministers are confidential.

The Treasury provides secretariat support.

Foreign Investment Review Board

The Foreign Investment Review Board is a non-statutory body that advises the Government on foreign investment policy and its administration. The board comprises four members; three, including the chair, are drawn from the business and community sectors. These members are appointed on a part-time basis. The General Manager of the Foreign Investment and Trade Policy Division also serves on the board as an executive member. The board:

- examines proposals by foreign interests for acquisitions and new investment projects in Australia and, against the background of the Government's foreign investment policy, makes recommendations to the Treasurer on those proposals;
 - advises the Government on foreign investment matters generally;
 - fosters an awareness and understanding, both in Australia and abroad, of the Government's foreign investment policy;
 - provides guidance, where necessary, to foreign investors so their proposals conform with the policy; and
 - monitors and ensures compliance with foreign investment policy.

The board's functions are advisory only. Responsibility for the Government's foreign investment policy and for making decisions on proposals rests with the Treasurer.

Categories of documents held by the Treasury

The Treasury holds correspondence, analysis and policy advice by Treasury officers, comments on Cabinet submissions and drafts of these and other documents. Every six months the Treasury posts an indexed list of its policy file titles at www.treasury.gov.au.

The Treasury holds representations made to Treasury portfolio ministers on matters falling within their portfolio responsibilities, including:

- economic, fiscal and monetary policy;
- international economic conditions;
- Commonwealth-State financial relations;
- taxation and excise;

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- superannuation;
- microeconomic reform;
- competition policy;
- consumer affairs;
- corporate regulation;
- financial sector policy and regulation;
- foreign investment in Australia and free trade agreements; and
- activities of portfolio agencies.

The Treasury holds files dealing with policy and administration in areas falling within the responsibilities of the Treasury portfolio detailed in the annual report.

Documents on internal departmental administration

The Treasury documents relating to staff, the organisation and operations include personal records, organisation and staffing records, financial and expenditure records, and internal operations, such as office procedures and instructions.

The Treasury holds documents relating to grants that the Government provides to other levels of government and to certain organisations under the programs it administers.

A detailed listing of the Treasury's documents published during the year and available on request (publications, papers and annual reports) is available at www.treasury.gov.au.

Facilities for access to documents

If a member of the public requests a document and the Treasury approves access, the Treasury will provide copies of documents after the applicant pays any charges.

Alternatively, applicants may arrange to inspect documents at the Treasury, Langton Crescent, Parkes, ACT between 9.00 am and 5.00 pm, Monday to Friday (except on public and public service holidays).

Freedom of information applications and initial contact points

The Executive and Parliamentary Division coordinates requests under the *Freedom of Information Act 1982*. Applicants seeking access under the Act to the Treasury's documents should apply in writing to:

The Secretary to the Treasury
The Treasury
Langton Crescent
PARKES ACT 2600
Attention: Freedom of Information Coordinator

An application fee of \$30 or a written request, pursuant to subsection 30A(1) of the Act, that the application fee be waived should accompany requests. Telephone inquiries should be directed to the Freedom of Information Coordinator, telephone (02) 6263 2111, between 9.00 am and 5.00 pm Monday to Friday (except on public or public service holidays).

Under section 23 of the *Freedom of Information Act 1982*, Treasury senior executive service officers can grant or refuse requests for access to documents. In accordance with section 54 of the Act, an applicant may, within 30 days of receiving notification of a decision under the Act, apply to the Secretary to the Treasury, seeking an internal review of a decision to refuse a request. The prescribed fee of \$40 should accompany the application. Executive Directors are authorised under section 23 to consider and make decisions on applications for internal review.

Freedom of information activity

In 2007-08, the Treasury and the Treasurer received 62 requests for access to documents under the *Freedom of Information Act 1982*, compared with 26 requests in the previous year. Further details are set out in Table 16 on page 268.

Table 16: Freedom of information statistics for 2007-08

Description	Number
Requests received	
On hand at 1 July 2007	4
Received	62
Breakdown across the Treasury	
Treasurer	3
Assistant Treasurer	0
Executive	0
Macroeconomic Group	13
Fiscal Group	13
Revenue Group	16
Markets Group	9
Corporate Services Group	0
Executive and Parliamentary Division	8
Action on requests	
Access in full	8
Access in part	15
Access refused or no documents located	6
Transferred in whole	2
Withdrawn/lapsed	16
Current as at 30 June 2008	17
Internal review	
Applications	3
Review by Administrative Appeals Tribunal	
Outstanding at 1 July 2007	1
New applications	1
Withdrawn	0
Fees and charges	
Total application fees collected	\$1,720.00
Total charges collected	\$8,644.00
Total application fees and charges collected	\$10,364.00

Note: A new request does not include an internal review or an appeal to the Administrative Appeals Tribunal. Section 16 of the *Freedom of Information Act 1982* provides that, as far as possible, the most appropriate agency will deal with a Freedom of Information request, regardless of which agency receives it. Details relating to reviews by the Administrative Appeals Tribunal are provided in Part 3, Internal and External Scrutiny on page 134.

AUSTRALIAN COMPETITION TRIBUNAL STATEMENT

The tribunal is an agency within the Treasury portfolio. As it does not publish an annual report, its section 8 statement follows.

Establishment

The tribunal was established under the *Trade Practices Act 1965* and continues under the *Trade Practices Act 1974*.

Organisation

The tribunal consists of a president and such number of deputy presidents and other members as the Governor-General appoints. A presidential member must be a federal court judge. Other members must have knowledge of, or experience in industry, commerce, economics, law or public administration. For the purposes of hearing and determining proceedings, the tribunal is constituted by a presidential member and two non-presidential members. Currently, all presidential members are judges of the Federal Court of Australia.

The Federal Court of Australia manages the tribunal's funds and provides registry services and administrative support. The registry receives documents, arranges tribunal sittings and undertakes general administration.

Functions and powers

The tribunal is a review body that re-hears or reconsiders matters. It may perform all the functions and exercise all the powers of the original decision-maker to affirm, set aside or vary the original decision.

The tribunal hears applications for review of determinations of the Australian Competition and Consumer Commission, granting or revoking authorisations that permit conduct and arrangements (including company mergers and acquisitions) that otherwise would be prohibited under the *Trade Practices Act* because of their anti-competitive effect.

The tribunal hears applications for review of certain decisions on access matters under the *Trade Practices Act's* regime to facilitate third party access to the services of certain essential facilities of national significance. The tribunal also hears applications for review of determinations of the Australian Competition and Consumer Commission on exclusive dealing. The tribunal also hears applications for review of certain decisions under the *Trade Practices Act's* regime for non-conference ocean carriers.

Arrangements for outside participation

Tribunal review proceedings, except under special circumstances, are public.

When a new review application is made to the tribunal, the tribunal ascertains who made submissions to, or registered their interest with the Australian Competition and Consumer Commission or the National Competition Council on the decision. The tribunal directs the applicant to serve the application on each interested party. At the same time, these parties are advised when the application will first come before the tribunal, and whether they have leave to intervene in the proceedings.

The tribunal may permit a person to intervene in the proceedings before it. Participants may appear on their own behalf or represent a firm or association, subject to the tribunal's approval, or, be represented by a barrister or solicitor.

Categories of documents the tribunal holds

The tribunal maintains the following categories of documents:

- documents lodged with the registrar on particular proceedings, including applications, notices of appearance, statements of facts and contentions, and witness statements;
- correspondence concerning particular tribunal proceedings;
- tribunal decisions and reasoning;
- reports on tribunal inquiries into shipping matters;
- register of applications made to the tribunal;
- documents concerning administrative and financial aspects of the tribunal's operations; and
- general correspondence.

The public may inspect the following categories of documents free of charge:

- documents lodged with the registrar in respect to particular proceedings (except where the Act or the tribunal restricts public access on the ground of confidentiality);
- tribunal decisions and reasoning;
- reports on tribunal inquiries into shipping matters; and
- register of applications made to the tribunal.

The public can obtain copies of the above four categories of documents after paying the fees set out in the Trade Practices Regulations.

Facilities for access to documents

Facilities are provided to access documents from 9.00 am to 4.00 pm, Monday to Friday (except on public and public service holidays).

If an applicant does not live in Sydney, alternative arrangements could reduce the inconvenience to the applicant.

Freedom of information applications and initial contact points

General inquiries relating to freedom of information should be directed to:

Registrar
Australian Competition Tribunal
Level 16
Law Courts Building
Queens Square
SYDNEY NSW 2000

Telephone: 02 9230 8567
Facsimile: 02 9230 8535
DX: 613 — Sydney

The Registrar of the Tribunal, as principal officer, can deny access to a document under the *Freedom of Information Act 1982*.

Freedom of information activity

The tribunal did not receive any requests for access to documents under the *Freedom of Information Act 1982* in 2007-08.

ADVERTISING AND MARKET RESEARCH

The following table sets out amounts paid by the Treasury on advertising and market research in 2007-08.

Table 17: Advertising and market research expenditure for 2007-08

Vendor	Purpose	Cost (\$)
HMA Blaze	Recruitment advertising — general vacancies	290,770
HMA Blaze	Recruitment advertising — graduate recruitment	77,964
HMA Blaze	Advertising for appointments — Auditing and Assurance Standards Board and Australian Accounting Standards Board	13,750
National Mailing and Marketing Pty Ltd	Direct mailing of information material to the public	51,823
Quantum Market Research	Market research services for the Financial Literacy Foundation	39,600
Universal McCann	Advertising management services for the Financial Literacy Foundation	705,241
Spectrum Graphics	Creative services for the Financial Literacy Foundation	61,944
Total		1,241,092

Note: These figures include GST. Projects totaling less than \$10,500 are not included in this table.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT

The Treasury's operations continue to have an impact on the environment through the use of electricity, petrol, water, paper and other materials consumed, and through the generation of waste.

During the year, the Chief Executive Instructions governing Environmental Management were issued to reflect the Treasury's commitment to improving environmental practices in energy management, procurement, technology, work practices and staff activities. These instructions provide guidance to Treasury staff to improve the sustainability of the Treasury's operations.

Energy management

The general office lighting system is part of the building management system and lighting is programmed to operate only during normal working hours. The after hours lighting system has manually operated switches which run for two hours. Additionally, infrared motion detection devices control lighting in areas not in constant use, such as conference and meeting rooms.

Recycling

The Treasury recycles paper and cardboard products, which are collected by a local recycling firm. Classified waste paper is pulped and paper hand towels are recycled. Bins are provided in staff kitchens to separate recyclable items. During 2007-08, the Treasury recycled 196.7 cubic meters of used paper hand towels and 82.5 cubic meters of co-mingled glass and plastics from staff kitchens. Staff kitchens also have sealed compost waste containers. In 2007-08 the Treasury recycled over 2,991 kilograms of compostable waste. The Treasury participates in the recycling of toner cartridges and recycled around 744 kilos during 2007-08.

Water

The tenancies within the Treasury building are not metered separately for water consumption. The landlord has installed flow restrictors on taps and dual flushed toilets where the Treasury is the tenant.

DISCRETIONARY GRANTS

In 2007-08, the Treasury administered the following discretionary grants:

- Australian National University: contribution of \$2,000 for sponsorship of the Fiscal Policy Framework Conference;
- Economic Society of Australia: contribution of \$14,000 for support of the 36th Australian Conference of Economists;
- Global Access Partners: contribution of \$11,000 for sponsorship of the Global Access Partners Congress on Regulatory Affairs 2008;
- Organisation for Economic Co-operation and Development: contribution of \$3,310 as a donation to the Global Forum Competition;
- Organisation for Economic Co-operation and Development: contribution of \$40,000 to complete the Consumer Policy Toolkit Project;
- St James Ethics Centre: contribution of \$750,000 to assist companies in implementing responsible business practices;
- University of Canberra: contribution of \$22,000 for research to assess the social and fiscal policy implications of an ageing population; and
- Waller Consultancy: contribution of \$40,000 to represent the Australian Secretariat of the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council at the APEC Senior Finance Officials Meeting, the Investment Experts' Group and the Economic Committee.

LEGAL SERVICES EXPENDITURE

The following table sets out legal services expenditure by the Treasury for 2007-08 published in compliance with paragraph 11.1(ba) of the *Legal Services Directions 2005*.

Table 18: Legal services expenditure for 2007-08

	No.	\$
Total external legal services expenditure including disbursements		1,362,732
External expenditure on solicitors		1,261,987
External expenditure on counsel		100,745
Number of female counsel briefed	1	
Value of briefs to female counsel		10,908
Number of male counsel briefed	4	
Value of briefs to male counsel		89,836
Total internal legal services expenditure including disbursements		12,437
Total legal services expenditure including disbursements		1,375,169

Note: These figures represent accrued expenditure figures for legal services provided in 2007-08. All amounts include GST. Numbers of counsel briefed relate to new briefs delivered to counsel in 2007-08. Values of briefs include all fees and disbursements for new briefs delivered to counsel in this period and ongoing briefs delivered to counsel before this period.

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ABBREVIATIONS AND ACRONYMS

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACSI 33	Australian Government Information and Communications Technology Security Manual
ADB	Asian Development Bank
ADI	Authorised deposit-taking institutions
ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
APEC	Asia-Pacific Economic Cooperation
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ARPC	Australian Reinsurance Pool Corporation
ASEAN	Association of Southeast Asian Nations
ASIC	Australian Securities and Investments Commission
AS/NZS	Australian/New Zealand Standard
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
ATSI	Aboriginal and Torres Strait Islander
AUASB	Auditing and Assurance Standards Board
AusAID	Australian Agency for International Development
AWA	Australian Workplace Agreement
CAMAC	Corporations and Markets Advisory Committee
COAG	Council of Australian Governments
CPA	Certified Practising Accountants
CSS	Commonwealth Superannuation Scheme
EBRD	European Bank for Reconstruction and Development
EEO	Equal employment opportunity
EL	Executive level
ESL	English as a second language
FCA	Family Court of Australia
FEMM	Pacific Islands Forum Economic Ministers Meeting
FMA	<i>Financial Management and Accountability Act 1997</i>
FMO	Finance Minister's Orders
G8	Group of Eight
G-20	Group of Twenty
GST	Goods and services tax
HCA	High Court of Australia

Abbreviations and acronyms

HCS	HIH Claims Support
HCSL	HIH Claims Support Limited
HLIC	Housing Loans Insurance Corporation
IBM	International Business Machines
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
ISO	International Organization for Standardization
IT	Information technology
KPMG	Klynveld Peat Marwick Goerdeler
MIGA	Multilateral Investment Guarantee Agency
MYEFO	Mid-Year Economic and Fiscal Outlook
NAE	New administered expenses
NSW	New South Wales
NZ	New Zealand
OECD	Organisation for Economic Co-operation and Development
OH&S	Occupational Health and Safety
OPA	Official Public Account
PAES	Portfolio Additional Estimates Statements
PBS	Portfolio Budget Statements
PEFO	Pre-Election Economic and Fiscal Outlook
PNG	Papua New Guinea
PRGF	Poverty Reduction and Growth Facility
PRINCE 2	Projects in Controlled Environments
PSS	Public Sector Superannuation Scheme
PSSap	Public Sector Superannuation accumulation plan
RBA	Reserve Bank of Australia
SDR	Special Drawing Rights
SEC	United States Securities and Exchange
SES	Senior executive service
SPP	Specific Purpose Payment
UIG	Urgent Issues Group
UN	United Nations
US	United States
WTO	World Trade Organization

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